Financial Statements and
Supplementary Information

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2012 and 2011
with Report of Independent Auditors

Ernst & Young LLP

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Supplementary Information

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Contents

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Report of Independent Auditors

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

We have audited the accompanying statements of net assets of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2012 and 2011, 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 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. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Antonio B. Won Pat International Airport Authority, Guam as of September 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2013, on our consideration of the Antonio B. Won Pat International Airport Authority, Guam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that Management's Discussion and Analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Antonio B. Won Pat International Airport Authority, Guam's financial statements. The supplementary information included in Schedules 1 through 9 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

January 29, 2013

The following Management's Discussion and Analysis of the Antonio B. Won Pat International Airport Authority, Guam's (the "Authority") activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ("FY") ended September 30, 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

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

A. Mission Statement

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

B. Using the Financial Statements

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

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

C. Authority Activities and Highlights

There was an improvement in the level of global air travel for the period ending September 30, 2012. The International Air Transport Association (IATA) expects a revenue increase of 2.1% and net industry profits of $6.7 billion down from $8.8 billion in 2011. Actions by airlines to cut costs and improve industry structures have generated better than expected financial performance given the difficult business environment.

IATA's outlook for 2013 is moderately better, driven by higher or stabilized economic activity and slightly lower fuel prices. Industry profits in 2013 are forecasted to be higher at $8.4 billion.

Passenger activity in FY 2012 was a banner year for the Authority. It's been 11 years since FY 2001 that passenger enplanements exceeded the 1.5 million threshold. FY 2012 signatory enplanements of 1,566,356 and total enplanements of 1,574,491 exceeded the prior year by 10.6% and 9.4%, respectively. When compared to budget projections, actual signatory airline enplanements increased by 6.2%.

The Authority continued to rank in the top 10 in international arrivals for all U.S. ports of entry ahead of large airports such as Atlanta and Washington, D.C. Over 90% of the Authority's enplanements are international from Origin & Destination markets.

The Authority welcomed a third airline from South Korea, Jeju Airlines, a low cost carrier. Jeju's entry prompted a flurry of capacity increases from their competitors and equally important, opened direct air service from South Korea's second largest city, Busan, a long sought after destination.

The super-merger of United and Continental Airlines as the world's largest carrier continues to move forward. The Authority is monitoring United's progression so as to sustain current air services and to promote Guam in their route planning strategies.

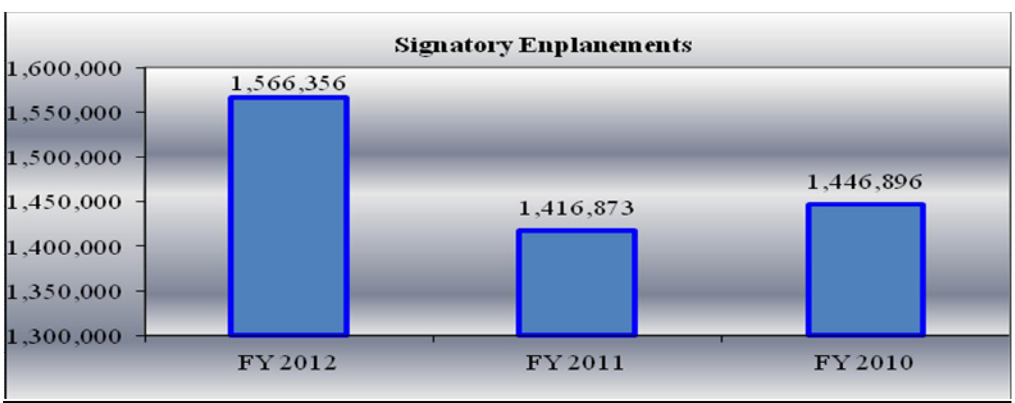
During FY 2012, the number of signatory airlines increased by 25%, from 8 to 10 airlines, the largest number in the Authority's history. Eva Air and Jeju Airlines are the new entrants. This demonstrates the signatory airlines commitment and positive outlook to the Guam market despite their obligation to guarantee the Authority's financial bottom line.

Going forward to FY 2013, the Authority seeks to maintain the FY 2012 signatory enplanement level with a slight uptick of 1.4% or 1,588,924 enplanements. There are uncertainties with the devaluation of currencies from our major markets and its contractionary impact on leisure travel; confidence in the global economy; stable fuel costs; and the U.S. rise from the fiscal slippery slope. The Authority finds that being conservative is the sweet spot between optimism and realism.

C. Authority Activities and Highlights, continued

Activities for the Authority for the years ended September 30, 2012, 2011, and 2010 are as follows:

	2012	2011	2010	2012 % Increase (Decrease) from 2011
Major revenue sources:				
Landing fees	$ 3,042,109	$ 2,567,747	$ 2,643,417	18.5%
Terminal Lease	10,861,087	10,618,530	9,414,797	2.3%
Concessions and parking	15,899,179	14,762,957	13,887,161	7.7%
Total	$29,802,375	$27,949,234	$25,945,375	6.6%
Passenger (enplanements) activity:				
Signatory airlines	1,566,356	1,416,873	1,446,896	10.6%
Other airlines	8,135	22,551	9,979	-63.9%
Total enplanements	1,574,491	1,439,424	1,456,875	9.4%
Aircraft operations	48,750	46,030	44,426	5.9%
Aircraft landed weights (000)	3,296,664	2,787,086	3,169,573	18.3%
O & D passengers	2,819,665	2,548,446	2,570,240	10.6%
Transfer passengers	167,328	175,181	183,430	-4.5%
Total passengers	2,986,993	2,723,627	2,753,670	9.7%



C. Authority Activities and Highlights, continued

For FY 2012, the signatory airlines cost per enplaned passenger (CPE) of $16.81 is a decrease from the $16.95 CPE in FY 2011 primarily due to the increase in enplanement activity for the year. This was also reflective of management's resolve to maintain the line on expenses and in-line with the Authority's budgeted projection of $17.12.

In addition to maintaining a competitive cost structure, the Authority has managed to maintain sufficient debt service coverage of 1.66 versus the 1.25 debt service requirements of the 2003 Bond Covenant. Moreover, the Authority continued to maintain a superior and reliable level of airport services in the facilitation of passengers and cargo to their destinations safely, efficiently, and effectively, key success factors paramount to the Authority's financial success, while promoting commerce and connectivity to our neighboring islands and countries in the region.

The following airlines served the Authority with scheduled or charter overseas passenger or cargo flights for FY 2012: United Airlines, Delta Airlines, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Jin Air, Eva Air, Jeju Airlines and Aerospace Concepts with the latter operating a business jet service.

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

D. Financial Operation Highlights

For FY 2012, total revenues amounted to $66.5 million, an increase of 1.6% year-over-year versus FY 2011 amount of $65.5 million. Operating income which amounted to $52.5 million accounted for 78.9% of all revenue in 2012. The remaining 21.1% or $14.0 million of revenue was comprised of non-operating income that included interest income, passenger facility charges, and grants from the U.S. government and transfers from the government of Guam.

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

Operational Revenues

The $52.5 million in operational revenues earned in FY 2012 represented a 6.6% increase versus the $49.2 million recorded in FY 2011. This increase in operating revenue may be attributed to the increase in non-aeronautical revenue streams which accounted for 53% of the Authority's operating revenue in 2012. Concession fees increased to $15.9 million or 7.7% year-on-year, versus the $14.7 million in 2011. General merchandise revenue rose 3.1% but resulted in a decreased average spend per enplaned passenger of approximately $4.71 in 2012 versus $5.07 in 2011. Ground transportation rose 15.6% from $4.2 million to $4.8 million due to increased passenger activity. Rental income increased by 2.3% for the same period with non-airline rentals reflecting an increase of 5.3%, up $4.0 million from $3.8 million.

D. Financial Operation Highlights, continued

Non-Operating Revenues

Non-operating revenues decreased in 2012 by 13.8% versus 2011, $14.1 million versus $16.3 million respectively. The disparity in 2012 was solely attributed to the decrease in grants from the U.S. government which amounted to $6.75 million. Specific FAA projects were delayed or placed on hold but are expected to progress during FY 2013.

Operational Expenses

For FY 2012, operational expenses which equaled $35.2 million, reflects a 4.2% year-over-year increase from FY 2011's amount of $33.7 million. Increases of 42.7% for materials and supplies and 125.3% for bad debt expense contributed largely to the higher FY 2012 operational costs. The number of FTE employees decreased by 3.5%, from 199 to 192.

Review of Notable Events in FY 2012

FY 2012 passenger activity continued to recover from the Japan disaster and the upward trend continued throughout the year similarly pegged to historical high peak months. FY 2012 signatory enplanements of 1,566,356 and total enplanements of 1,574,491 exceeded the prior year by 10.6% and 9.4% respectively. These are highest totals in the post-9/11 era.

The Authority welcomed Jeju Airlines as the newest airline entrant. The number of signatory airlines increased 25%, from 8 to 10. Air service development remains a high priority for the Authority.

Key financial metrics include a decrease of the signatory airline cost per enplaned passenger from $16.95 in 2011 to $16.81 in 2012 and the increase of the debt service coverage ratio from 1.53 in 2011 to 1.66 in 2012. The Series 2003 airport revenue bonds require a minimum debt service coverage of 1.25.

Credit rating agency, Standard & Poor's affirmed the Authority's bond rating of BBB with a stable outlook during FY 2012. The credit ratings are critical to the financial success of the Authority and will ensure the Authority is positioned to take advantage of any opportunities that may reduce interest rates for future financing or realize potential savings opportunities through a refinancing of the 2003 Bond issuance.

The Authority continues to work closely with local and federal government stakeholders on a memorandum of understanding (MOU) for the Tiyan Parkway that will also mitigate the impact of the closure to Central Avenue due to runway operations. Department of Public Works (DPW) has completed the environmental assessment resulting in a mutually acceptable roadway alignment. Property acquisition options are currently being vetted.

D. Financial Operation Highlights, continued

Review of Notable Events in FY 2012, continued

The Authority's Master Plan Update is nearing completion with the environmental component remaining. Legislative informational briefing and stakeholder reviews have been conducted. In addition, a Geographic Information System survey and Electronic Airport Layout Plan pilot project is progressing that will provide key data and information for Guam's airport and serve as a precursor to the Federal Aviation Administration's NextGen project for air navigation.

The Authority has contracted, financed and started its energy management program that resulted in a performance contract to change out key mechanical and lighting systems that would save energy through efficiencies. Energy savings of about $1.4 million per year are guaranteed by the performance contractor for 10 years and, funds, in part, a short term, United States Department of Agriculture guaranteed, low interest subordinate loan from a local bank.

The Authority's new airport water system is in operation with no outages or low pressure recorded to date. Lateral connections to existing buildings are in progress. Guam Waterworks Authority (GWA) is operating and maintaining the system on an interim basis until data is collected to form the basis for a longer term agreement. The new water system will meet the airport's demand into the future; would accelerate the remediation of groundwater contamination and; fully resolve fire suppression issues at all airport facilities.

Airline Signatory Rates and Charges

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

D. Financial Operation Highlights, continued

Financial Position Summary

A condensed summary of the Authority's statements of net assets at September 30, 2012, 2011 and 2010 is shown below:

ASSETS	2012	2011	2010	2012 % Increase (Decrease) from 2011
Current assets:				
Unrestricted current assets	$ 12,549,055	$ 7,736,116	$ 12,164,255	62.2%
Restricted current assets	1,661,610	1,779,158	2,036,006	-6.6%
Non-current assets:				
Unrestricted assets	21,060,361	22,117,162	21,972,719	-4.8%
Restricted assets	32,941,612	32,671,610	32,415,162	0.8%
Capital assets	398,963,653	405,381,493	413,838,006	-1.6%
Avigation easements	11,975,643	12,984,992	13,994,340	-7.8%
Deferred bond issue costs	4,857,336	5,448,094	6,256,409	-10.8%
Total assets	$484,009,270	$488,118,625	$502,676,897	-0.8%
LIABILITIES				
Current liabilities:				
Payable from unrestricted assets	$ 10,215,231	$ 9,380,778	$ 15,926,850	8.9%
Payable from restricted assets	15,472,745	14,941,518	15,050,224	3.6%
Long term liabilities	152,330,909	156,647,265	165,882,773	-2.8%
Total	178,018,885	180,969,561	196,859,847	-1.6%
NET ASSETS				
Invested in capital assets – net of related debt	254,505,279	258,910,440	260,440,321	-1.7%
Restricted	28,720,477	28,604,250	28,025,944	0.4%
Unrestricted	22,764,629	19,634,374	17,350,785	15.9%
Total	305,990,385	307,149,064	305,817,050	-0.4%
Total liabilities and net assets	$484,009,270	$488,118,625	$502,676,897	-0.8%

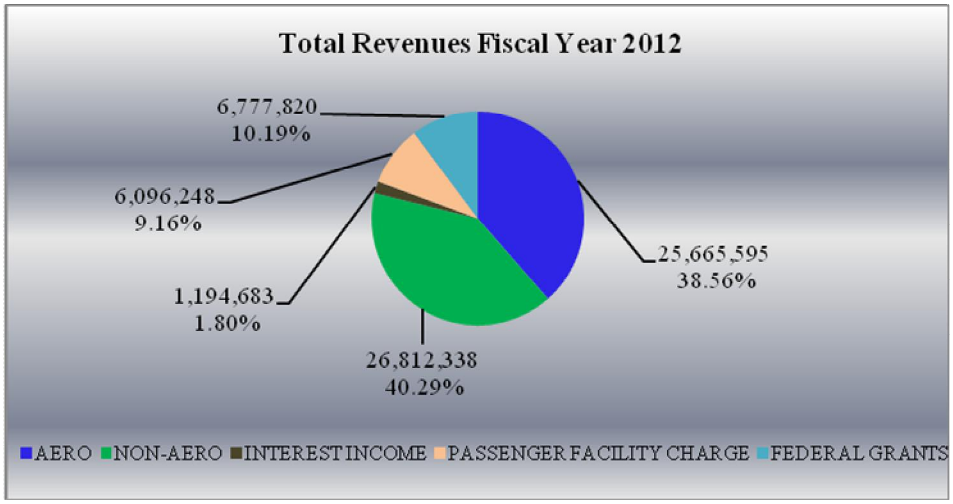
D. Financial Operation Highlights, continued

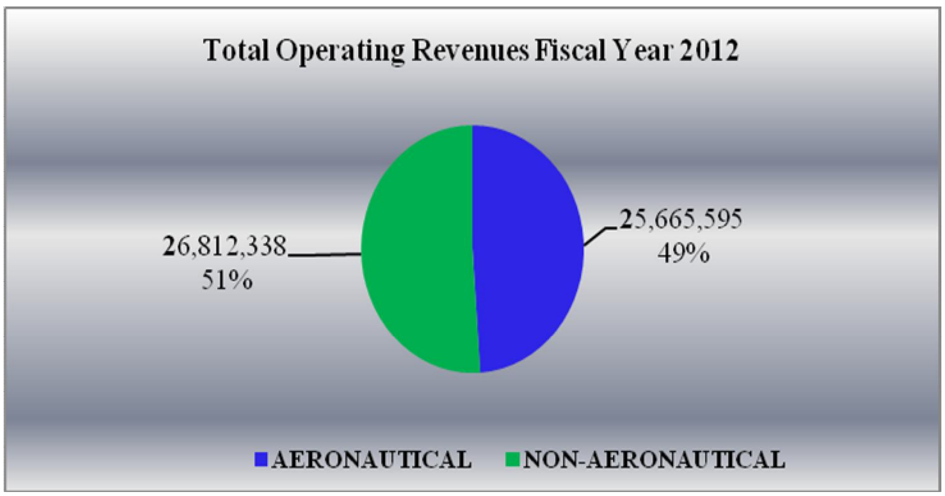
Revenues

A summary of revenues for the years ended September 30, 2012, 2011 and 2010 and the amount and percentage of change in relation to prior year is as follows:

	2012	2012 % of Total	2011	2011 % of Total	2010	2010 % of Total	2012 % Increase (Decrease) from 2011
Operating:							
Facilities and systems usage charges:							
Arrival facilities	$ 6,398,217	9.6%	$ 6,159,123	9.4%	$ 6,109,684	8.5%	3.9%
Departure facilities	6,348,530	9.5%	6,046,101	9.2%	6,225,493	8.6%	5.0%
Immigration	2,337,874	3.5%	2,210,176	3.4%	2,236,345	3.1%	5.8%
Public apron	2,107,797	3.2%	1,394,782	2.1%	1,515,323	2.1%	51.1%
Passenger loading bridge	3,676,307	5.5%	3,366,254	5.1%	3,547,283	4.9%	9.2%
Landing fees	3,042,109	4.6%	2,567,747	3.9%	2,643,417	3.7%	18.5%
Utility recovery charge and other fees	474,691	0.7%	442,015	0.7%	554,104	0.8%	7.4%
Fuel flowage fee	183,933	0.3%	158,956	0.2%	155,562	0.2%	15.7%
Total facilities and systems usage charges	24,569,458	36.9%	22,345,154	34.0%	22,987,211	31.9%	10.0%
Concession fees:							
General merchandise	7,420,798	11.2%	7,194,836	11.0%	6,326,954	8.8%	3.1%
Ground transportation	4,803,013	7.2%	4,156,156	6.3%	4,267,947	5.9%	15.6%
Car rental	934,605	1.4%	931,949	1.4%	931,766	1.3%	0.3%
Food and beverage	902,317	1.4%	844,104	1.3%	810,174	1.1%	6.9%
In-flight catering	754,661	1.1%	666,213	1.0%	679,358	0.9%	13.3%
Other	1,083,785	1.6%	969,699	1.5%	870,962	1.1%	11.8%
Total concession fees	15,899,179	23.9%	14,762,957	22.5%	13,887,161	19.1%	7.7%
Rental income:							
Operating space - airline	3,103,781	4.7%	3,065,873	4.7%	2,730,854	3.8%	1.2%
Operating space - non-airline	3,820,488	5.7%	3,749,467	5.7%	2,730,298	3.8%	1.9%
Other	3,936,818	5.9%	3,803,190	5.8%	3,953,645	5.5%	3.5%
Total rental income	10,861,087	16.3%	10,618,530	16.2%	9,414,797	13.1%	2.3%
Miscellaneous	1,148,209	1.7%	1,481,857	2.4%	840,907	1.1%	-22.5%
Total operating	52,477,933	78.9%	49,208,498	75.1%	47,130,076	65.2%	6.6%
Non-Operating:							
Interest income	1,194,681	1.8%	1,155,144	1.8%	1,282,807	1.8%	3.4%
Passenger facility charge	6,096,248	9.2%	5,576,838	8.5%	5,668,517	7.9%	9.3%
Grants from the U. S. Government	6,751,432	10.1%	9,508,361	14.5%	18,018,117	25.0%	-29.0%
Transfer from Government of Guam - OHS	26,388	0.0%	78,063	0.1%	60,731	0.1%	-66.2%
Total non-operating	14,068,749	21.1%	16,318,406	24.9%	25,030,172	34.8%	-13.8%
Total revenues	$ 66,546,682	100.0%	$ 65,526,904	100.0%	$ 72,160,248	100.0%	1.6%

D. Financial Operation Highlights, continued





D. Financial Operation Highlights, continued

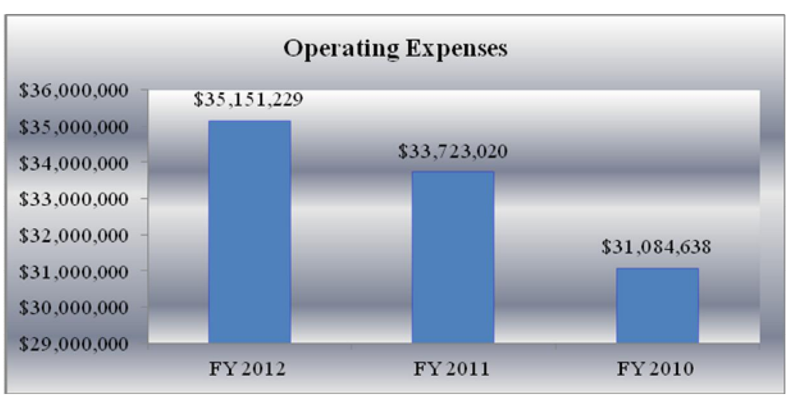
Revenues, continued

Receipts from grants from the United States Government amounted to $6.8 million for FY 2012. An additional $8.2 million in federal grants and amendments were awarded to the Authority in 2012. The majority of monies will be used for airfield and aviation infrastructure improvements, environmental assessments and base conversion projects.

Expenses

A summary of expenses for the years ended September 30, 2012, 2011, and 2010 and the amount and percentage of change in relation to prior year amounts is as follows:

	2012	2012 % of Total	2011	2011 % of Total	2010	2010 % of Total	2012 % Increase (Decrease) from 2011
Operating:							
Contractual services	$18,950,053	28.0%	$18,662,427	29.1%	$17,504,651	28.0%	1.5%
Personnel services	13,917,232	20.6%	13,744,204	21.4%	12,755,098	20.4%	1.3%
Materials and supplies	1,178,487	1.7%	825,621	1.3%	712,570	1.1%	42.7%
Bad debt expense	1,105,457	1.6%	490,768	0.8%	112,319	0.2%	125.3%
Total operating expenses	35,151,229	51.9%	33,723,020	52.6%	31,084,638	49.7%	4.2%
Depreciation and amortization	24,956,519	36.9%	22,638,455	35.3%	22,975,268	36.8%	10.2%
Non-Operating:							
Interest expense	7,164,599	10.6%	7,343,883	11.4%	7,947,785	12.7%	-2.4%
Other expenses	433,010	0.6%	489,532	0.7%	489,693	0.8%	-11.5%
Total non-operating expenses	7,597,609	11.2%	7,833,415	12.1%	8,437,478	13.5%	-3.0%
Total expenses	$67,707,357	100.0%	$64,194,890	100.0%	$62,497,384	100.0%	5.5%
Total full time employees	192		199		200		



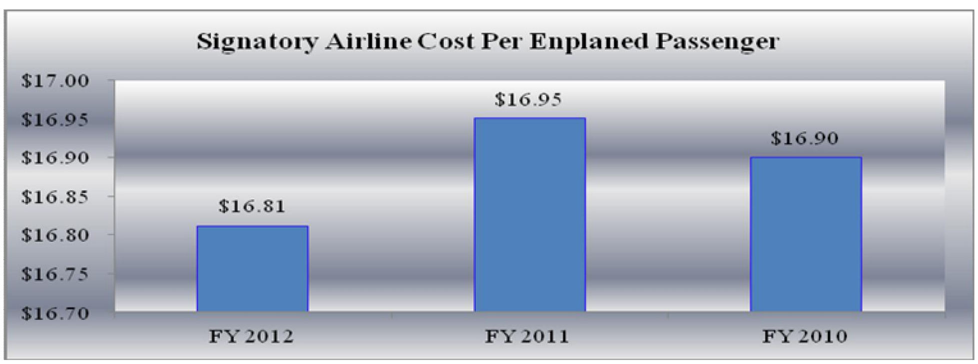
E. Cost Per Enplaned Passenger & Debt Service Coverage

Cost Per Enplaned Passenger

A summary of the cost per enplaned passenger for the years ended September 30, 2012, 2011 and 2010, and the amount and percentage of change in relation to prior year amounts is as follows:

	2012		2011		2010	
	Actual	% of Totals	Actual	% of Totals	Actual	% of Totals
Airport Revenues						
Signatory Airline rentals & fees	$26,332,581	43.9%	$24,016,783	42.6%	$24,452,297	44.8%
Revenues from sources other than Signatory Airline rentals and fees	27,208,919	45.3%	26,157,787	46.4%	23,717,183	43.5%
Passenger Facility Charge revenue	6,096,248	10.2%	5,576,838	9.9%	5,668,517	10.4%
Operating grants from U.S. Government	408,686	0.6%	581,938	1.1%	730,579	1.3%
Airport Revenues	$60,046,434	100.0%	$56,333,346	100.0%	$54,568,576	100.0%

		% Change		% Change	
Signatory Airline enplaned passengers	1,566,356	10.6%	1,416,873	-2.1%	1,446,896
Signatory Airline cost per enplaned passenger	$16.81	-0.8%	$16.95	0.3%	$16.9

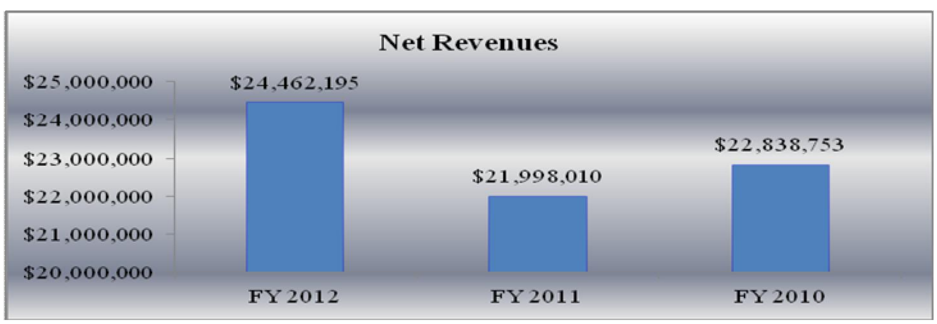


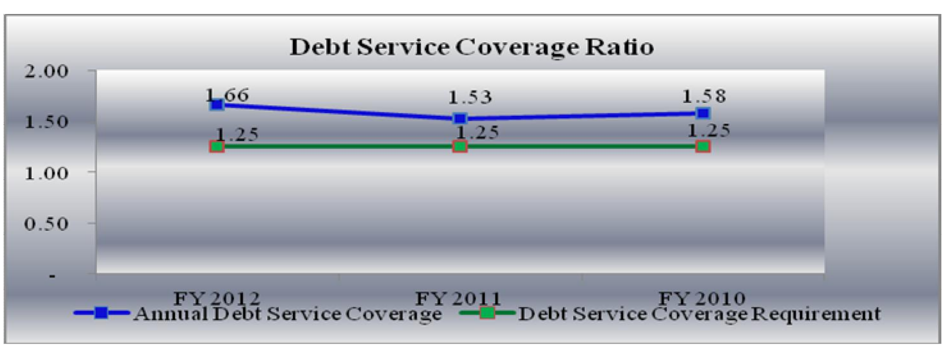
E. Cost Per Enplaned Passenger & Debt Service Coverage, continued

Debt Service Coverage

Under the Bond Indenture for the issuance of the 2003 General Revenue Bonds, the Authority is required to maintain minimum debt service coverage of 1.25 in relation to net revenues versus annual debt service. A summary of the annual debt coverage for the years ended September 30, 2012, 2011 and 2010 is as follows:

	2012	2011	2010	2012 % Increase (Decrease) from 2011
Airport Revenues	$60,046,434	$56,333,346	$54,568,576	6.6%
Less: Operation and Maintenance Expenses	(35,701,522)	(34,335,336)	(31,729,823)	4.0%
Net Revenues	24,344,912	21,998,010	22,838,753	10.7%
Plus: Other Available Moneys	4,317,380	4,304,480	4,292,067	0.3%
Net Revenues and Other Available Moneys	$28,662,292	$26,302,490	$27,130,820	9.0%
Rate Covenant				
Net Revenues and Other Available Moneys	$28,662,292	$26,302,490	$27,130,820	9.0%
Total Annual Debt Service	$17,269,519	$17,217,919	$17,168,269	0.3%
Annual Debt Service Coverage	1.66	1.53	1.58	8.6%
Debt service coverage requirement	1.25	1.25	1.25	





F. Outlook for FY 2013

For 2013, the industry forecast is expected to improve in terms of passenger activity and profitability with an increase of over 25% over 2012. Global economies are expected to improve and business travel will rebound.

The Authority's passenger projections of 1,588,924 enplanements reflect a very conservative outlook year-over-year with a 1.4% growth in FY 2013. Signatory enplanement growth of 10.6% in FY 2012 may not be sustainable since the hotel room inventory is already saturated during peak holiday periods. The strength of foreign currency remains a factor that makes Guam an attractive and value-added destination but Japan is expected to devalue their currency to improve export results and it is uncertain how that will impact outbound travel from Guam's largest visitor market. The Russia visa waiver parole authority has produced increased passenger arrivals and is a growth market. The China visa waiver continues to be evaluated by the federal government and if parole authority is extended, it will open a whole new chapter for the Authority and the visitor industry.

The Authority in partnership with the Guam Economic Development Agency (GEDA) has initiated the finance planning process for the 2013 bond call date to re-finance the 2003 bond issue and possibly seek new capital. Preliminary meetings with the rating agencies will occur in early FY 2013. Low interest rates are projected to remain flat and may result in double-digit savings to the Authority's current debt service. These savings coupled with new and increased non-airline revenue sources will make new capital bonds feasible. A sampling of projects that will be considered include a permanent solution to the concourse separation mandate, relocation of TSA baggage screening from the ticket lobbies to the in-line outbound baggage system, common use check in facilities, improvements to enhance customer service levels and projects to increase the useful life of the air terminal.

The Authority and Guam Visitor's Bureau (GVB) will continue to pursue an aggressive air service development program. Concurrently, the Authority, GVB and GEDA are to provide the data and support to seek new hotel development and expansion. The Authority and GVB will continue to work on air service opportunities for charters and scheduled extra sections from our incumbent airlines need to manage their fleet and seek ways to maximize aircraft utilization.

The Authority will work closely with its airline partners to contain operational cost and improve upon the projected $17.20 as CPE for FY 2013. By maintaining a low cost structure and affordable airport rates and charges, the Authority hopes to increase airline activity that ultimately translates into increased operating revenue through its concessions.

F. Outlook for FY 2013, continued

The Authority will also engage a new specialty retail contract as part of the merchandise concessions in early FY 2013. Proposals are being evaluated and, at a minimum, the annual guarantee will increase by 50% from \$4.0 million to \$6.0 million as required by the RFP. The business model for the food and beverage concessions will be reviewed to improve passenger services and maximize sales through a diversification of healthy, branded and local choices.

The Authority will complete airfield improvements with the installation of a new Instrument Landing System for Runway 6L. The same runway is also expected to be rehabilitated with bid opening in early FY 2013. These projects pave the way for the runway to be operational for long-haul air service.

The Authority expects to finalize an action plan with DPW for the Tiyan Parkway and mitigate the closure of Central Avenue. Land acquisition initiatives will be formalized as part of an amended MOU. Concurrently, consultations will continue for a phased expansion of Route 10A to connect Routes 1 and 16.

With several initiatives and projects underway, the Authority remains committed to positioning Guam as a low cost major transportation hub in the Western-Pacific region for 2013.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Assets

	September 30, 2012	September 30, 2011
Assets		
Current assets:		
Unrestricted assets:		
Cash *(Note 3)*	$ 1,820,208	$ 865,406
Passenger facility charge cash *(Note 3)*	24,172	99,298
Accounts receivable, trade, net of allowance for doubtful accounts of $1,991,620 at September 30, 2012 ($886,162 at September 30, 2011) *(Note 3)*	6,202,347	5,688,114
Passenger facility charge receivables *(Note 3)*	895,209	561,902
Receivables from the United States Government	3,556,402	454,035
Inventory and other	50,717	67,361
Total unrestricted current assets	12,549,055	7,736,116
Restricted assets:		
Customs fees, cash *(Note 3)*	74,066	335,358
Customs fees, receivables *(Note 11)*	1,587,544	1,443,800
Total restricted current assets	1,661,610	1,779,158
Total current assets	14,210,665	9,515,274
Accounts receivable from tenant, unrestricted *(Notes 3 and 8)*	799,200	540,000
General Revenue Bonds *(Note 6)* :		
Investments and cash with trustees, unrestricted	20,261,161	21,577,162
Investments and cash with trustees, restricted	32,941,612	32,671,610
	53,202,773	54,248,772
Capital assets, at cost less accumulated depreciation *(Notes 4 and 10)*	398,963,653	405,381,493
Avigation easements *(Note 4)*	11,975,643	12,984,992
Deferred bond issue and loan costs	4,857,336	5,448,094
Total assets	$ 484,009,270	$ 488,118,625

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Assets, continued

	September 30, 2012	September 30, 2011
Liabilities and Net Assets		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	$ 2,752,640	$ 2,366,675
Accounts payable - construction	4,752,646	4,382,840
Other liabilities *(Note 10)*	903,803	1,173,341
Security deposits and deferred income	1,281,047	1,135,533
Current portion of annual leave *(Note 9)*	308,095	322,389
Current portion of loan payable to bank *(Notes 5 and 9)*	217,000	---
Total payable from unrestricted assets	10,215,231	9,380,778
Payable from restricted assets:		
Customs fees payable to Treasurer of Guam *(Note 11)*	2,042,986	1,785,059
General Revenue Bonds:		
Current installments *(Notes 5 and 9)*	9,590,000	9,095,000
Accrued interest	3,839,759	4,061,459
Total payable from restricted assets	15,472,745	14,941,518
Total current liabilities	25,687,976	24,322,296
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued sick leave *(Notes 7 and 9)*	159,480	170,548
Long-term portion of annual leave *(Note 9)*	687,076	667,578
Long-term loan payable to bank *(Notes 5 and 9)*	5,377,897	---
Payable from restricted assets:		
Long-term bonds payable, less current installments:		
General Revenue Bonds *(Notes 5 and 9)*	146,106,456	155,809,139
Total non-current liabilities	152,330,909	156,647,265
Total liabilities	178,018,885	180,969,561
Commitments and contingencies *(Notes 5 and 10)*		
Net assets:		
Invested in capital assets, net of related debt	254,505,279	258,910,440
Restricted *(Notes 4 and 10)*	28,720,477	28,604,250
Unrestricted	22,764,629	19,634,374
Total net assets	305,990,385	307,149,064
Total liabilities and net assets	$ 484,009,270	$ 488,118,625

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Revenues, Expenses and Changes in Net Assets

	Year ended September 30, 2012	2011
Revenues *(Note 5)* :		
Facilities and systems usage charges	$ 24,569,458	$ 22,345,154
Concession fees *(Notes 3 and 8)*	15,899,179	14,762,957
Rental income *(Note 8)*	10,861,087	10,618,530
Miscellaneous	1,148,209	1,481,857
Total revenues	52,477,933	49,208,498
Operating costs and expenses:		
Contractual services *(Note 8)*	18,950,053	18,662,427
Personnel services	13,917,232	13,744,204
Materials and supplies	1,178,487	825,621
Bad debt	1,105,457	490,768
Total operating costs and expenses	35,151,229	33,723,020
Income from operations before depreciation and amortization	17,326,704	15,485,478
Depreciation and amortization	(24,956,519)	(22,638,455)
Loss from operations	(7,629,815)	(7,152,977)
Non-operating income (expense):		
Passenger facility charge income	6,096,248	5,576,838
Interest income	1,194,681	1,155,144
Interest expense	(7,164,599)	(7,343,883)
Other expenses, net *(Note 5)*	(433,014)	(440,906)
Non-recurring expenses	(---)	(48,626)
Total non-operating expenses, net	(306,684)	(1,101,433)
Loss before capital grants and transfer in	(7,936,499)	(8,254,410)
Capital grants from the United States Government	6,369,134	9,004,486
Operating grants from the United States Government	382,298	503,875
Transfer from Government of Guam - Office of Highway Safety (OHS)	26,388	78,063
Total capital and operating grants	6,777,820	9,586,424
(Decrease) increase in net assets	(1,158,679)	1,332,014
Net assets at beginning of year	307,149,064	305,817,050
Net assets at end of year	$ 305,990,385	$ 307,149,064

See accompanying notes.

Statements of Cash Flows

	Year ended September 30, 2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 50,600,813	$ 49,674,617
Cash paid to suppliers for goods and services	(19,800,746)	(26,788,816)
Cash paid to employees	(13,923,096)	(13,735,127)
Net cash provided by operating activities	16,876,971	9,150,674
Cash flows from investing activities:		
Net sales of investments with trustee	1,045,999	139,109
Investment interest income	1,194,681	1,155,144
Cash provided by investing activities	2,240,680	1,294,253
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities	(10,655,998)	(12,364,279)
Principal payment on General Revenue Bonds	(9,207,683)	(8,744,295)
Interest paid on General Revenue Bonds	(7,901,219)	(7,554,058)
Loan cost	(172,757)	---
Passenger facility charge receipts	5,762,941	5,687,918
U.S. Government capital grants	3,649,065	12,331,987
Transfer from Government of Guam - OHS	26,384	78,063
Net cash used in capital and related financing activities	(18,499,267)	(10,564,664)
Net increase (decrease) in cash	618,384	(119,737)
Cash at beginning of year	1,300,062	1,419,799
Cash at end of year	$ 1,918,446	$ 1,300,062
Consisting of:		
Unrestricted	$ 1,844,380	$ 964,704
Restricted - current	74,066	335,358
	$ 1,918,446	$ 1,300,062

Non-cash investing and financing activities:
During the year ended September 30, 2012, the Authority recorded an increase to capital assets and bank loan totaling $5,594,897 representing loan proceeds disbursed directly by the bank to a contractor.

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows, continued

	Year ended September 30, 2012	2011
Reconciliation of loss from operations and other expenses to net cash provided by operating activities:		
Loss from operations	$(7,629,815)	$(7,152,977)
Non-recurring and other expenses, net	(433,010)	(489,532)
	(8,062,825)	(7,642,509)
Adjustments to reconcile loss from operations and other expenses, net to net cash provided by operating activities:		
Depreciation and amortization	24,956,519	22,638,455
Bad debt expense	1,105,457	490,768
(Increase) decrease in assets:		
Accounts receivable	(1,763,434)	883,807
Inventory	16,644	(24,831)
Accounts receivable from tenant	(259,200)	(259,200)
Increase (decrease) in liabilities:		
Accounts payable	1,013,698	(6,696,603)
Other current liabilities	(269,538)	(89,802)
Security deposits and deferred income	145,514	(158,488)
Annual leave	5,204	(29,587)
Accrued sick leave	(11,068)	38,664
Total adjustments	24,939,796	16,793,183
Net cash provided by operating activities	$ 16,876,971	$ 9,150,674

See accompanying notes.

1. Organization and Summary of Accounting Policies

Organization

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

Basis of Accounting

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

Net Assets

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

Cash

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

1. Organization and Summary of Accounting Policies, continued

Accounts Receivable

Accounts receivable are primarily due from airlines utilizing the Authority's airport terminal facilities and various business establishments located in Guam. The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 90 days from the date of billing. As of September 30, 2012 and 2011, receivables that are more than ninety days past due totaled approximately $3,588,000 and $2,373,000, respectively. The Authority accrues finance charges on past due receivables. Receivables are stated net of estimated allowances for doubtful accounts.

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

Inventory

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

Investments

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

Capital Assets and Depreciation and Amortization

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

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

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

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

1. Organization and Summary of Accounting Policies, continued

Capital Assets and Depreciation and Amortization, continued

Loan costs incurred are capitalized and amortized over the term of the loan (five years) using the straight-line method, which approximates the effective interest method.

Capitalization of Interest

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

Avigation Easements

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

Compensated Absences

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

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

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

3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

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

1. Organization and Summary of Accounting Policies, continued

Compensated Absences, continued

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

Bond Premium and Discount

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

Operating and Non-Operating Revenues and Expenses

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

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

Passenger Facility Charges

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

Environmental Costs

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

Estimates

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

1. Organization and Summary of 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 has procured catastrophic insurance, as discussed in Note 10.

New Accounting Standards

During the year ended September 30, 2012, the Authority implemented the following pronouncements:

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* effective for periods beginning after December 15, 2011. The statement establishes guidance for accounting and financial reporting for service concession arrangements.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* effective for periods beginning after June 15, 2012. The statement addresses reporting entity issues that have arisen since the issuance of Statement No. 14 and Statement No. 34.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* effective for periods beginning after December 15, 2011. The statement incorporates into the GASB's authoritative literature certain accounting and financial guidance issued on or before November 30, 1989.

In June 2011, GASB issued Statement No. 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* effective for periods beginning after December 15, 2011. The statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions,* effective for periods beginning after June 15, 2011. The statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The statement also sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

1. Organization and Summary of Accounting Policies, continued

New Accounting Standards, continued

The implementation of these pronouncements did not have a material effect on the financial statements of the Authority.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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

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

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans.

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

1. Organization and Summary of Accounting Policies, continued

Reclassifications

Certain reclassifications have been made to the 2011 financial statements for comparative purposes. Such reclassifications have no effect on the previously reported increase in net assets.

2. Subsequent Events

The Authority has evaluated subsequent events through January 29, 2013.

3. Concentrations of Credit Risk and Major Customers

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

The Authority maintains its cash in bank accounts, which at times may exceed federal depository insurance limits. At September 30, 2012 and 2011, $250,000 of the Authority's deposits in each bank is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

A primary concessionaire accounted for 15% of total operating revenues for each of the years ended September 30, 2012 and 2011. Receivables from the primary concessionaire totaled $1,026,490 and $929,017 at September 30, 2012 and 2011, respectively.

For the years ended September 30, 2012 and 2011, approximately 28% and 29%, respectively, of the Authority's total operating revenues, including passenger facility charge income, were derived from one airline customer. At September 30, 2012 and 2011, the receivable from this airline customer totaled $1,821,986 and $1,397,109, respectively.

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

4. Airport Facilities

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

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

The Authority acquired avigation easements from surrounding residential homeowners in exchange for the cost of installing residential sound insulation. Construction-in-progress at September 30, 2012 and 2011 included $696,963 and $661,913, respectively, of costs associated with the residential sound insulation program. At September 30, 2012 and 2011, the Authority's avigation easements totaled $11,975,643 and $12,984,992, net of amortization, respectively, and is shown as avigation easements in the accompanying statements of net assets.

4. Airport Facilities, continued

A summary of changes in capital assets for the year ended September 30, 2011 is as follows:

	Beginning Balance October 1, 2010	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2011
Capital assets depreciated:				
Terminal building	$330,412,546	$ ---	$10,720,748	$341,133,294
Other buildings	61,065,843	15,000	23,733,183	84,814,026
Airfield area	57,263,161	---	24,523,563	81,786,724
Apron area	40,983,694	---	---	40,983,694
Terminal area	24,748,708	---	---	24,748,708
Support facilities	8,657,093	19,394	---	8,676,487
Total capital assets depreciated	523,131,045	34,394	58,977,494	582,142,933
Less accumulated depreciation	(286,410,865)	(20,820,792)	---	(307,231,657)
Net capital assets depreciated	236,720,180	(20,786,398)	58,977,494	274,911,276
Capital assets not depreciated:				
Land	57,461,373	---	---	57,461,373
Construction-in-progress	119,656,453	12,329,885	(58,977,494)	73,008,844
Total capital assets not depreciated	177,117,826	12,329,885	(58,977,494)	130,470,217
	$413,838,006	$(8,456,513)	$ ---	$405,381,493

On September 30, 2005, the Authority entered into a quitclaim deed with the Government of Guam, wherein the Government of Guam transferred a parcel of land with an appraised value of $2,530,000 to the Authority. As more fully discussed in Note 10, the deed was entered into in response to a request by the Federal Aviation Administration (FAA) that the Authority seek reimbursement of $564,702 in unresolved federal program questioned costs as of September 30, 2004. The $2,530,000 is included as a component of capital assets in the accompanying statements of net assets. Due to numerous uncertainties surrounding the Tiyan properties, the Authority has noted that it may elect to utilize the excess contribution from the land transfer to offset any subsequent obligations by the Government of Guam if so determined by the federal government.

4. Airport Facilities, continued

Interest capitalized for the years ended September 30, 2012 and 2011, totaled $514,920 and $605,752, 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 (at September 2000) and is included as a component of capital assets in the accompanying statements of net assets. In fiscal year 2001, the Navy paid the Authority $10,000,000 (see Note 10) and the Authority and the Government of Guam assumed the responsibility for the completion of certain environmental response actions on the property.

5. Long-Term Revenue Bonds Payable and Loan Payable to Bank

Long-term revenue bonds payable at September 30, 2012 and 2011, consist of the following:

	2012	2011
(1) General revenue bonds, Series 2003 (original issue of $216,250,000):		
Varying interest rates (1.45% - 5.375%) payable semiannually in October and April, principal payments due in varying annual installments with $9,590,000 and $9,095,000 due in October 2012 and 2011, respectively, and increasing to $17,175,000 on October 2023	$155,005,000	$164,100,000
Less current installments	(9,590,000)	(9,095,000)
	145,415,000	155,005,000
Add net unamortized premium on bonds	3,551,487	4,130,326
Less deferred difference on refunding of 1993 bonds	(2,860,031)	(3,326,187)
	$146,106,456	$155,809,139

5. Long-Term Revenue Bonds Payable and Loan Payable to Bank, continued

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

Year ending September 30,	Principal	Interest	Total Debt Service
2013	$ 9,590,000	$ 7,482,000	$ 17,072,000
2014	10,030,000	7,076,000	17,106,000
2015	10,510,000	6,621,000	17,131,000
2016	11,065,000	6,121,000	17,186,000
2017	11,635,000	5,585,000	17,220,000
2018 through 2022	68,770,000	18,019,000	86,789,000
2023 through 2024	33,405,000	1,732,000	35,137,000
	$155,005,000	$ 52,636,000	$207,641,000

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

The refunding resulted in a difference on refunding of $7,937,352 representing the difference between the reacquisition price and carrying amount of the 1993 bonds. This amount was deferred and is being amortized over the remaining life of the 1993 bonds. For the years ended September 30, 2012 and 2011, the amortization expense totaling $466,155 and $493,507, respectively, are included as a component of other expenses, net in the accompanying statements of revenues, expenses and changes in net assets.

The General Revenue Bonds, Series 2003, including interest, are payable from and are secured by a pledge of revenues under the indenture. The bonds are collateralized by a lien upon and pledge of revenues to be received by the Authority, the trustees and the depository. The Authority also engaged the Bond Issuer to secure the financial guaranty insurance policy, guaranteeing the schedule payment of the principal and interest on the 2003 Bonds when due. Neither the payment of the principal on the bonds, nor any interest thereon, is a debt, liability or obligation of the Government of Guam.

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

5. Long-Term Revenue Bonds Payable and Loan Payable to Bank, continued

(2) Long-term loan payable to bank at September 30, 2012 consisted of the following:

First Hawaiian Bank, 3.75% interest rate fixed for 5 years, monthly payment of interest only shall be made for the first year of the loan starting on July 27, 2012; thereafter, monthly payments of principal and interest in the amount of $267,362 starting on August 27, 2013, which will amortize the loan over a period of 4 years. The principal balance and all accrued interest will be due and payable on July 27, 2017. The loan is secured by a Security Agreement and a UCC-1 Financing Agreement. The loan is subject to U.S. Department of Agriculture's (USDA) written commitment to the bank to guaranty no less than 90% of the loan to the Authority	$5,594,897
Less current installment	217,000
	$5,377,897

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

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

5. Long-Term Revenue Bonds Payable and Loan Payable to Bank, continued

subordinate to the pledge and lien of airport Revenues to secure payment of the Authority's Bonds.

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

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

Year ending September 30	
2013	$ 217,000
2014	1,329,000
2015	1,380,000
2016	1,433,000
2017	1,236,000
	$5,595,000

6. 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 bond proceeds. At September 30, 2012 and 2011, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	2012	2011
Operations and Maintenance Reserve Fund	$ 9,378,260	$ 9,252,793
Federal Grant Funds	6,414,589	7,095,661
Self-Insurance Fund	3,838,135	4,038,862
Capital Improvement Fund	400,038	545,579
General Revenue Fund	225,457	639,581
Operations and Maintenance Fund	4,682	4,686
Total Unrestricted	20,261,161	21,577,162
Cash with trustees	4,718	449,771
Bond Reserve Funds	18,506,524	18,063,952
Debt Service Funds	13,430,224	13,157,642
Renewal and Replacement Fund	1,000,146	1,000,245
Total Restricted	32,941,612	32,671,610
	$53,202,773	$54,248,772

6. Investments and Cash with Trustees, continued

Investments are stated at fair market value. The amortized cost and fair value of investments at September 30, 2012 and 2011 are summarized as follows:

	2012			2011		
	Amortized Cost	Gross unrealized gains	Fair value	Amortized Cost	Gross unrealized gains	Fair value
Cash with trustees	$ 4,718	$ ---	$ 4,718	$ 449,771	$ ---	$ 449,771
Money market/ trust funds	25,714,887	---	25,714,887	27,494,078	---	27,494,078
Investment agreements	18,045,950	---	18,045,950	18,045,950	---	18,045,950
Short-term investments	8,120,110	67,286	8,187,396	7,024,998	160,945	7,185,943
U.S. Treasury notes	1,212,615	37,207	1,249,822	1,037,893	35,137	1,073,030
	$53,098,280	$ 104,493	$53,202,773	$54,052,690	$ 196,082	$54,248,772

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

Category 1 Investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name;

Category 2 Investments that are uninsured and unregistered for which securities are held by the counterparty's trust department or agent in the Authority's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the Authority's name.

As of September 30, 2012 and 2011, all investments were classified as Category 2 investments.

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

6. Investments and Cash with Trustees, continued

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

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

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Based on negotiated trust and custody contracts, all of these investments were held in the Authority's name by the Authority's custodial financial institutions at September 30, 2012 and 2011.

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

6. Investments and Cash with Trustees, continued

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

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

6. Investments and Cash with Trustees, continued

At September 30, 2011, the Authority's investments were as follows:

	Standard & Poor's/Moody's Credit Rating	Investment Maturities (In Years) Less than 1	1 to 5	6 to 10	Greater than 10	Total
US treasury notes	Aa+/Aaa	$ 35,916	$1,033,407	$ ---	$ ---	$ 1,069,323
US government agencies:						
Federal Home Loan Mortgage Corporation	Aaa	809,701	1,092,592	---	---	1,902,293
Federal National Mortgage Association	Aaa	199,681	1,117,213	---	---	1,316,894
Other guaranteed by FDIC	Aaa	328,949	---	---	---	328,949
Corporate notes:						
CDC Funding Corporation	A+/Aa3	---	---	---	18,045,950	18,045,950
Other	Aaa	36,273	33,763	---	---	70,036
Other	Aa/Aa2	20,552	365,533	---	---	386,085
Other	A/A2	116,790	741,035	6,304	---	864,129
Other	Bbb/Baa2	---	193,304	---	---	193,304
Money Market Funds:						
Federated Investments	Aaa	2,078,675	---	---	---	2,078,675
US Bank, NA	A1/Aa2	13,175,325	---	---	---	13,175,325
Citibank, NA	A/A1	4,032,850	---	---	---	4,032,850
Bank of Guam	Bbb/Baa2	9,417,765	---	---	---	9,417,765
Other	Not rated	867,327	---	---	---	867,327
		$31,119,804	$4,576,847	$ 6,304	$18,045,950	53,748,905
Cash						449,771
Accrued interest						50,096
						$54,248,772

7. Employee Benefits and Other

Employee Retirement Plan

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

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

DB Plan

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

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

Statutory contribution rates for employer and employee contributions were 28.3% and 9.50%, respectively, for the year ended September 30, 2012, 27.46% and 9.50%, respectively, for the year ended September 30, 2011 and 26.04% and 9.50%, respectively, for the year ended September 30, 2010.

Actuarial contribution rates were 30.09%, 28.06% and 29.31% for the years ended September 30, 2012, 2011 and 2010, respectively.

During the years ended September 30, 2012, 2011 and 2010, contributions made and accrued, which were equal to the required contributions for those years, amounted to $325,013, $338,176 and $353,856, respectively.

7. Employee Benefits and Other, continued

DCRS

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

Statutory employer contributions into the DCRS for the years ended September 30, 2012 and 2011 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

During the years ended September 30, 2012, 2011 and 2010, contributions made and amounts accrued under the DCRS amounted to $2,368,797, $2,314,135 and $2,049,637, respectively.

Retirement expense amounted to $2,693,810, $2,652,311 and $2,403,493 for the years ended September 30, 2012, 2011 and 2010, respectively.

Accrued Sick Leave

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. As of September 30, 2012 and 2011, the Authority has accrued an estimated liability of $159,480 and $170,548, respectively. However, this amount is an estimate and actual payout could differ from those estimates.

7. Employee Benefits and Other, continued

Other Post-Employment Benefits

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

8. Leases

DFS

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

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

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

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

DFS also entered into a concession agreement with the Authority for additional store space for a five year term which expired in 2011, but the concession continues on a month-to-month basis until a new agreement is finalized. Effective fiscal year 2011, DFS entered into another concession agreement with the Authority for a separate additional store space for a five year term. For each of these agreements, DFS guarantees to pay a minimum annual rent of $250,000 during each lease year, or the percentage rent which is 22.5% of annual gross revenues for each lease year, whichever amount is greater.

8. Leases, continued

DFS, continued

Concession fee income for the years ended September 30, 2012 and 2011 includes $2,346,397 and $2,125,392 of percentage rent income in excess of the minimum guarantee and additional rent on the DFS lease, respectively.

The future minimum lease receipts under the remainder of the DFS Concession Agreements as of September 30, 2012 are as follows:

Year ending September 30,	
2013	$1,750,000
2014	250,000
Total minimum lease payments receivable	$2,000,000

Pac Air Properties, LLC

Effective February 22, 2008 (Commencement Date), the Authority and Pac Air Properties, LLC (Pac Air) agreed to amend and restate its existing ground lease agreement dated October 31, 2006 in its entirety. The new agreement has an initial lease term of fifty (50) years beginning on the commencement date, with an option on the part of Pac Air to renew for an additional ten (10) years. In accordance with the agreement, Pac Air shall make agreed-upon capital improvements at a cost of no less than $25 million to the leased premises with an area of approximately 540,000 square feet. On the termination or expiration of the lease, capital improvements will be surrendered to the Authority. The Authority shall waive rental payments during the construction phase but no later than the first two (2) years from the initial term of the lease. Beginning on the date of beneficial occupancy, which is on September 1, 2009 the date which marks the end of the construction phase and the waiver of rent, the monthly rent shall amount to $21,600 but payment of such rent shall be deferred for the next five (5) years, at such time the deferred rent shall be paid starting on September 1, 2014 in equal monthly installments over the next ten (10) years at the same time and under the same conditions as the regular monthly rent payments. For each of the years ended September 30, 2012 and 2011, the Authority accrued rental income totaling $259,200 and is included as a component of rental income in the accompanying statements of revenues, expenses and changes in net assets. At September 30, 2012 and 2011, accrued rental receivable totals $799,200 and $540,000, respectively, and is shown as accounts receivable from tenant in the accompanying statements of net assets.

8. Leases, continued

Pac Air Properties, LLC, continued

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

Year ending September 30,	
2013	$ 259,200
2014	259,200
2015	286,200
2016	286,200
2017	286,200
Thereafter	19,774,703
Total future minimum lease payments receivable	$21,151,703

In 2010, the Authority entered into a lease-back agreement with Pac Air to lease a total of 32,500 square feet of space in the completed facility on the leased premises for 5 years with annual rent of $1,058,400. Rent expense for each of the years ended September 30, 2012 and 2011 amounted to $1,058,400 and is included under contractual services in the accompanying statements of revenues, expenses and changes in net assets.

On December 2010, the Authority entered into a sublease agreement with the Government of Guam's Customs and Quarantine Agency (GovGuam CQA) to lease 25,000 square feet of the aforementioned 32,500 square feet rental space for 5 years, with annual rental income of $1,024,200. Rental income for each of the years ended September 30, 2012 and 2011 amounted to $1,024,200 and is included under rental income in the accompanying statements of revenues, expenses and changes in net assets.

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

Year ending September 30,	Lease back Expense	Sublease Income	Net (Expense) Income
2013	$(1,058,400)	$ 1,024,200	$(34,200)
2014	(1,058,400)	1,024,200	(34,200)
2015	(923,400)	1,024,200	100,800
	$(3,040,200)	$3,072,600	$ 32,400

8. Leases, continued

Other Leases

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

The future minimum rentals on other noncancellable operating leases (excluding the DFS and Pac Air and GovGuam CQA lease described above) as of September 30, 2012 are as follows:

Year ending September 30,	
2013	$ 7,015,000
2014	6,089,000
2015	5,800,000
2016	5,357,000
2017	1,301,000
Thereafter	10,033,000
Total future minimum lease payments receivable	$35,595,000

9. Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal years 2012 and 2011 follows:

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

9. Long-Term Liabilities, continued

	Outstanding September 30, 2010	Increases	Decreases	Outstanding September 30, 2011	Current	Noncurrent
Accrued sick leave	$ 131,884	$ 38,664	$ ---	$ 170,548	$ ---	$ 170,548
Accrued annual leave	1,019,554	---	29,587	989,967	322,389	667,578
2003 General revenue bonds	173,648,434	---	8,744,295	164,904,139	9,095,000	155,809,139
	$174,799,872	$ 38,664	$8,773,882	$166,064,654	$9,417,389	$156,647,265

10. Commitments and Contingencies

Environmental Response Actions

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

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

10. Commitments and Contingencies, continued

Environmental Response Actions, continued

The long-term obligation to operate and maintain the facilities built under the remedial construction as well as the required sampling will be handled through a water system commercial agreement. As of September 30, 2012, the Authority estimated, based upon a weighted average probability of future cash outflows, that its pollution remediation obligations as called for under GASB No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* totaled $354,868. At September 30, 2012 and 2011, future pollution remediation and monitoring costs totaling $354,868 and $454,568, respectively, is reflected as a component of other current liabilities in the accompanying statements of net assets.

Federal Program Costs

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

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

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

As of September 30, 2012, there were no unresolved questioned costs.

Commitments

The Authority has commitments totaling approximately $16.2 million under several construction contracts at September 30, 2012.

In addition, the Authority has commitments under other various contracts totaling approximately $13.9 million at September 30, 2012.

10. Commitments and Contingencies, continued

Insurance

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon damage. The Authority also maintains deposit of $1 million annually in the Renewal and Replacement Fund which will be combined with funds in the Self Insurance Fund to cover damage in the event of a natural catastrophe. The balances in the Renewal and Replacement Fund and Self-Insurance Fund are $1,000,000 and $3,832,707 respectively, at September 30, 2012, and $1,000,000 and $4,038,862, respectively, at September 30, 2011. The Authority has a catastrophic insurance policy with coverage up to $5 million as a supplement to the self-insurance.

Government of Guam General Fund

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

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

Notwithstanding the requirements of 5 G.C.A. § 22421, the Authority is prohibited by its 2003 General Revenue Bonds Indenture (2003 Indenture) and federal law from transferring any funds from its operating surplus to the General Fund. Any diversion of the Authority's revenues under any formula will place the Authority in breach of the 2003 Indenture and will jeopardize ongoing and future federal funding, possibly even subjecting the Authority to millions of dollars in federal civil penalties. Accordingly, the Authority cannot transfer any of its revenues to the General Fund as directed by 5 G.C.A. § 22421 and no liability has been recorded for this contingency as of September 30, 2012 and 2011. This position has been supported by legal determinations, past and present.

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

10. Commitments and Contingencies, continued

Government of Guam General Fund, continued

During the course of Fiscal Year 2012, numerous discussions were held between the Authority, the FAA and the Office of the Governor on the GovGuam assessment. Resultantly, it is apparent that there is a greater understanding of the Authority's obligations as pressures to remit the assessment have subsided. In addition, the Authority's oversight senator had introduced a legislative bill to repeal the requirements of 5 GCA Chapter 22 §22421. A public hearing is pending.

Water System Infrastructure Upgrade

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

The remaining work under the new airport water system is to install the laterals that connect the new infrastructure to the existing structures in north Tiyan that are presently supplied by the old Navy water system. This is estimated to be completed by the 2nd quarter of FY13.

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

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

Litigation

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

10. Commitments and Contingencies, continued

Other

In December of 2012, the Department of Administration paid out merit bonuses for line agency employees who met the criteria set forth pursuant to 4 GCA Chapter 6 § 6203. Merit bonuses are to be paid to employees who receive a superior rating evaluation conducted for increment purposes. The Authority is currently conducting its due diligence to determine its obligation to pay out merit bonuses. Accordingly, an estimate of costs to pay bonuses for airport employees has not been determined at this time.

11. Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2012 and 2011, 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, 2012 and 2011, the Authority recorded customs fees payable to the Treasurer of Guam totaling $2,042,986 and $1,785,059, respectively, for the above charges, of which $1,587,544 and $1,443,800, respectively, are reflected as customs fees, receivables in the accompanying statements of net assets. The fees are not reflected as an expense or revenue by the Authority.

Supplementary Information

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2012 and 2011

Schedule 1
Facilities and Systems Usage Charges

	2012	2011
Arrival facilities	$ 6,398,217	$ 6,159,123
Departure facilities	6,348,530	6,046,101
Passenger loading bridge usage charge	3,676,307	3,366,254
Landing fees	3,042,109	2,567,747
Immigration	2,337,874	2,210,176
Public apron	2,107,797	1,394,782
Utility recovery and other fees	474,691	442,015
Fuel flowage fees	183,933	158,956
	$ 24,569,458	$ 22,345,154

Schedule 2
Concession Fees

	2012	2011
General merchandise	$ 7,420,798	$ 7,194,836
Ground transportation	4,803,013	4,156,156
Car rental	934,605	931,949
Food and beverage	902,317	844,104
In-flight catering	754,661	666,213
Advertising	452,565	448,125
Money exchange	379,211	326,169
Parking lot	134,263	105,000
Other	117,746	90,405
	$ 15,899,179	$ 14,762,957

Schedule 3
Rental Income

	2012	2011
Operating space:		
- Non-airline	$ 3,820,488	$ 3,749,467
- Airline	3,103,781	3,065,873
Building and maintenance shop rentals	1,957,055	1,638,743
Other	1,716,873	1,913,090
Cargo rentals	262,890	251,357
	$ 10,861,087	$ 10,618,530

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2012 and 2011

Schedule 4
Contractual Services

	2012	2011
Power	$ 6,999,726	$ 6,801,521
Repairs and maintenance	5,545,945	4,642,427
Professional services	2,618,726	2,707,369
Miscellaneous	1,405,350	1,812,624
Insurance	1,384,319	1,536,328
Utilities and telephone	519,968	713,819
Advertising and promotions	331,045	307,469
Travel/Training and Certifications	144,974	140,870
	$ 18,950,053	$ 18,662,427

Schedule 5
Personnel Services

	2012	2011
Salaries and wages	$ 10,356,825	$ 10,295,803
Retirement contributions	2,763,279	2,652,311
Insurance	797,128	796,090
	$ 13,917,232	$ 13,744,204
Full-time employee count in September	192	199

Schedule 6
Materials and Supplies

	2012	2011
Equipment and vehicle maintenance and supplies	$ 514,130	$ 410,289
Office and security supplies	263,707	148,729
Miscellaneous	206,562	118,481
Electrical and plumbing	103,052	101,520
Building maintenance and supplies	91,036	46,602
	$ 1,178,487	$ 825,621

Schedule 7
Insurance Coverage

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

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2012 and 2011

Schedule 8

Reconciliation of Historical Financial Results

	Year ended September 30, 2012	Year ended September 30, 2011
Change in net assets:		
Revenues	$ 59,768,862	$ 55,940,480
Expenses	(35,151,229)	(33,723,020)
Income before depreciation	24,617,633	22,217,460
Depreciation	(24,956,519)	(22,638,455)
	(338,886)	(420,995)
Interest and other expenses	(7,597,609)	(7,833,415)
Transfer from the Government of Guam - OHS	26,388	78,063
Grants from the United States Government	6,751,432	9,508,361
(Decrease) increase in net assets	$(1,158,675)	$ 1,332,014
Net Revenues (per Bond Resolution):		
Revenues	$ 59,768,862	$ 55,940,480
Operation and maintenance expenses	(35,423,950)	(33,942,470)
Net revenues available for debt service	$ 24,344,912	$ 21,998,010
Reconciliation:		
Change in net assets	$(1,158,675)	$ 1,332,014
Add back:		
Depreciation	24,956,519	22,638,455
Interest expense	7,164,599	7,343,883
Miscellaneous	(116,712)	(158,156)
Deduct:		
Capital grants from the United States Government	(6,369,134)	(9,004,486)
Interest income on funds related to construction	(131,685)	(153,700)
	24,344,912	21,998,010
Other available monies	4,317,380	4,304,480
Funds available for debt service	$ 28,662,292	$ 26,302,490
Debt Service*	$ 17,269,519	$ 17,217,919

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

Antonio B. Won Pat International Airport Authority, Guam

Year ended September 30, 2012

Schedule 9
Employee Data

Department	Employees (b)	Personnel Services (a)
Board	1	$ 46,180
Administration	31 (c)	1,995,871
Property Management	9	735,734
Planning	1	82,634
Accounting	10	655,106
Engineering	3	237,125
Operations	20	1,223,895
Properties & Facilities Maintenance	39	2,224,191
Airport Police	48	3,701,634
Aircraft Rescue Fire Fighting	30	3,014,862
Total	192	$ 13,917,232

Note(s):

a. Expenditures are funded by Operating & Maintenance Fund Account.

b. Filled positions, not including Limited Term Appointments related to Airport Police pursuant to Transportation Security Administration mandated.

c. Administration consisted of:

Executive Management	2
Division Head	1
Administrative support	5
Safety	3
Audit and compliance	3
Personnel	4
Marketing	3
Procurement	7
Management Information System	3
	31