

*Financial Statements, Required Supplementary
Information, and Supplementary and Other Information*

**Antonio B. Won Pat International Airport
Authority, Guam**
(A Component Unit of the Government of Guam)

*Year ended September 30, 2015
with Report of Independent Auditors*

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Financial Statements, Required Supplementary Information,
and Supplementary and Other Information

Year ended September 30, 2015

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Report of Independent Auditors

The Board of Directors

Antonio B. Won Pat International Airport Authority, Guam

Report on the Financial Statements

We have audited the accompanying statement of net position of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2015, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Adoption of Government Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date"

As discussed in the Note 1, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended September 30, 2015. As a result of adopting these standards, the Authority has restated its net position as of October 1, 2014 to reflect the adoption of these standards. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 17, the Schedule of the Authority's Proportionate Share of the Net Pension Liability on page 55, and the Schedule of the Authority's Contributions on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other Than Pension that GASB requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Management’s Discussion and Analysis

Year ended September 30, 2015

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority’s basic financial statements. The supplementary and other information included in pages 57 through 61 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information included in pages 57 through 60 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule 11 - Employee Data on page 61 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated March 3, 2016 on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.



March 3, 2016

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, 2015. 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 “Airport”).

The Authority is a self-sustaining autonomous government agency, and operates and maintains the Airport. The Airport provides facilities for domestic overseas flights and international flights to destinations in Micronesia, Asia and Australia. It is authorized to impose and collect rates and charges for the Airport’s services and properties to generate revenues to fund operating expenses, debt service and reserves. The 1993 Airport Bonds, refinanced in 2003, issued by the Authority, federal grants and airport revenues funded the construction of the Airport Terminal Building and the Capital Improvement Program. The Authority issued the 2013 Airport Bonds during the 4th quarter of FY2013 that refunded the 2003 bonds and provided funds for planned capital improvement projects.

A. Mission Statement

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

B. Using the Financial Statements

The Authority utilizes the flow of economic measurement focus. Financial statements are prepared in accordance with accounting principles generally accepted in the United States 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 Statement of Revenues, Expenses and Changes in Net Position replaced the Statement of Revenues, Expenses and Changes in Net Assets. 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.

Management’s Discussion and Analysis, continued

C. Authority Activities and Highlights

FY2015 marked the third year in a row that enplanement passenger activity surpassed 1.69 million passengers for the Authority. While enplanements remained relatively flat for FY2015 amounting to 1,692,943, this continues a sustained trend that will eventually exceed 1.7 million travelers annually that pass through the Authority. Signatory airlines, which comprise 99.4% of the passenger activity in FY2015, amounted to 1,683,262 enplanements. Non-signatory airline enplanements dipped by 44.3% year-over-year, amounted to 9,681 passengers in FY2015 versus 17,379 in FY2014. This variance may be attributed to two factors: 1) many of our previous charter operators have established scheduled operations to Guam and have since received signatory status; and 2) the suspension of charter flights from Russia.

The Authority’s passenger activity correlates with data from the Guam Visitors Bureau (GVB), as they report strong growth in our secondary markets of Korea and China, reflecting an increase in visitor arrivals of 30.9% and 62.2%, respectively. The increase may be attributed to the additional sections and up gauged capacity by airlines serving these markets, notably, United Airlines, which suspended their Seoul and Cairns routes and initiated service into Shanghai; along with Eva Air; Jeju Airlines, the addition of Air Busan in July 2015 and T’way Air in September 2015.

Japan’s economy and depreciated currency continue to affect visitor arrivals to our island. The multi-year increases in its sales tax and deficit spending by its government, combined with limited opportunities for foreign direct investment, has resulted in GDP growth measured at only 0.3% compounded annually. Visitors from this market amounted to 779,405 reflecting another decline year-over-year of 5.6%, versus 825,830 visitors in FY2014. Travelers from Japan comprised 56.8% of visitors to Guam. Fortunately, the decrease was offset by growth in the Korea and China markets.

Russian visitors, which had seen exponential growth in arrivals since being granted parole authority to travel to Guam in 2012, significantly decreased by 80.7% to only 3,539 travelers for FY2015 in contrast to the 18,291 travelers for the same period in FY2014. The decline from this once burgeoning O&D market may be credited to the fall of oil prices which accounts for half of its country’s economic activity, economic sanctions and plunging currency issues. To exacerbate the situation, direct charter flights were either suspended or operated on a limited schedule.

While it appears that market diversification is taking place, the Authority will continue to work with GVB to mitigate further losses in markets like Japan and Russia and continue collaboration to increase global awareness of the Guam product, improve processes to enhance the passenger experience, and provide incentives into new markets or to maintain existing capacity into current ones for new and existing air service.

Management’s Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

	2015	2014	% Increase (Decrease)
Major revenue sources:			
Landing fees	\$ 2,682,133	\$ 2,763,527	-2.95%
Terminal lease	10,979,589	10,760,224	2.04%
Concessions and parking	<u>23,997,750</u>	<u>23,328,427</u>	2.87%
Total revenues	<u>\$ 37,659,472</u>	<u>\$ 36,852,178</u>	2.19%
Passenger (enplanement) activity:			
Signatory airlines	1,683,262	1,673,521	0.58%
Non signatory airlines	<u>9,681</u>	<u>17,379</u>	-44.29%
Total enplanements	<u>1,692,943</u>	<u>1,690,900</u>	0.00%
Aircraft operations	<u>55,974</u>	<u>53,228</u>	5.16%
Aircraft landed wights (000,000)	<u>3,351,229</u>	<u>3,605,575</u>	-7.05%
O&D passengers	2,968,921	2,970,320	-0.05%
Transfer passengers	<u>216,369</u>	<u>210,551</u>	2.76%
Total passengers	<u>3,185,290</u>	<u>3,180,871</u>	0.14%

With regards to capital improvements, the Authority completed several and proceeded with many of its projects that were initiated in FY2014 that are focused on enhancing the passenger experience. The design of the Concourse Isolation project was completed and bid opening is scheduled to take place during the quarter of FY2016. This project will separate passenger arrivals to address the commingling issue with departing passengers and eliminate the temporary partitions running through the existing concourse. Construction for the Hold Bag Screening Relocation project is underway and is scheduled to be completed by the 1st quarter of FY2017. This project will eventually remove the TSA screening pods in front of the airline check-in areas and regain the ticket counters that were taken off-line, while increasing capacity three-fold. Design work for federal inspection services have also been completed which includes an expanded passenger screening checkpoint for TSA and automated passport control kiosks in the CBP area.

In addition, the Light Aircraft Commuter facility was completed in April 2015 and was fully operational in October 2015. This facility provides additional connectivity for commuter passengers to the Commonwealth of the Northern Marianas Islands (CNMI) utilizing aircrafts weighing 12,500 pounds or lower on a scheduled and charter basis for passenger/cargo services.

Other projects include the exterior painting of the main terminal building, completion of the upgrades to the terminal restrooms, roofing system replacement, and design for the expansion and relocation of the fiber optic backbone to the terminal.

Management’s Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Additional projects that were federally funded also commenced or were completed in FY2015. Demolition of the former cargo building was completed which would allow for further expansion of aircraft parking aprons and three additional passenger gates and mitigate potential airfield hazards. An additional 11 homes were insulated under the Authority’s Sound Solutions program. And a new state-of-the-art aircraft rescue and firefighting vehicle was purchased to replace aging apparatuses. Additional remnant facilities were demolished in Tiyan, along Sunset Boulevard, and mitigated to make way for a new perimeter road and Airport Operations Area fence line. In addition, Phase I of the Tiyan Parkway was opened in June 2015. This was a major milestone for the Authority as Runway 6L/24R, which is the 12,000 runway, becomes fully operational and has the capacity and capability to service long-haul, trans-pacific flights.

The Authority’s newly renovated retail environment which occupies 32,000 square feet of space on the departure level concourse has a “Chamorro Heritage Center” complete with a Chamorro Hut, Latte Stones and artistic renditions of local historic landmarks, along with a 4,500 gallon salt water aquarium. The transformation of this retail space includes upgrades that begin in the TSA security areas that transition passengers into the specialty boutiques with luxury goods, perfumes and cosmetics, liquor and tobacco, sunglasses and watches, and flows effortlessly into a pleasing, new food court and common seating areas in hopes of increasing passenger “dwell” time, which translates into optimal revenue for the Authority. For FY2015, concession revenue for the Authority was up a modest 2.9% amounting to \$24.0 million in FY2015 versus \$23.3 million in FY2014.

With emphasis placed on an enhanced passenger experience, the Authority continues to position itself among the top 15 ports of entry for international arrivals for all United States ports. Guam was ranked 9th behind Orlando with Atlanta taking the 10th position in a report published in June 2015 by the National Travel and Tourism Office, US Department of Commerce. The Authority’s passenger base is over 90% international from all originating markets served.

For FY2015, the cost per enplaned passenger (CPE) for signatory airlines was calculated at \$16.54, which represents a 2.7% increase from the CPE cost of \$16.11 in FY2014. The Authority continues to practice cost containment initiatives and look for opportunities to diversify its non-aeronautical revenue streams to maintain a competitive cost structure that would entice further air service development while providing a superior and reliable level of airport services.

The Authority continues to maintain investor confidence and remains a key economic driver for commerce and connectivity in the region, moving passengers safely, efficiently and effectively. These key success factors were integral to the Authority’s financial success in achieving debt service coverage of 1.57 versus the 1.25 debt service requirements under the 2013 bond covenants. Moody’s Investors Service recognized the Authority’s success and affirmed its credit rating of Baa2 with stable outlook in November 2015 for the Airport’s General Revenue Bonds issued in 2013.

Management’s Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

The following airlines served the Authority with scheduled passenger service for FY2015: United Airlines, Delta Airlines, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Jin Air, Eva Air, Jeju Airlines, Air Busan, T’way Air and Aerospace Concepts (which operates as a business jet service). Cargo operators include Asia Pacific Airlines, Federal Express and UPS.

For commuter operations that provide inter-island passenger flight service to and from Guam and the CNMI, Cape Air is the principal airline operator. Star Marianas Air and Arctic Air also provide services to the CNMI from Guam utilizing aircraft weighing 12,500 pounds or lower on a scheduled and charter basis for passenger/cargo services.

D. Financial Operation Highlights

The Authority’s financial position for FY2015 reflects an increase in total assets of 1.7% up \$620.0 million versus \$609.4 million in FY2014. Unrestricted current assets were up \$20.6 million versus \$12.4 million for the same period due to an increase in receivables from the United States Government of \$11.2 million versus \$2.2 million the prior year. In addition, avigation easements, which are required by the FAA as a condition of development, increased 30.1% for the eleven homes that were completed in FY2015 as a part of the Authority’s Sound Solution Program. Total liabilities increased 8.5% year-over-year for the same period from \$281.2 million to \$305.2 million. This increase is due in part to the implementation, as of October 1, 2014 of GASB No. 68 for the accounting and financial reporting for pensions. GASB No. 68 required the Authority to record net pension liability totaling \$30.6 million, deferred inflows of resources for pension totaling \$2.3 million and deferred outflows of resources for pension totaling \$3.9 million which result primarily to the 4.8% decrease in net position of \$312.1 million in FY2015 versus \$327.7 million in FY2014. The Authority chose to reflect a single year presentation of its financial statements.

For FY2015, total revenues for the Authority increased by 5.6% to \$90.3 million versus \$85.5 million year-over-year in comparison to FY2014. Operating income which amounted to \$63.7 million, accounted for 70.5% of total revenues. The remaining 29.5%, approximately \$26.7 million 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.

Total expenses for FY2015 amounted to \$77.2 million versus \$74.0 million in FY2014 which reflects a 4.3% increase year-over-year of \$3.2 million. Operating expenses accounted for 51.6% of total expenses. Depreciation and amortization costs of \$24.2 million accounted for 31.4% of total expenses, with \$13.1 million of non-operating expenses which include interest expense of \$12.8 million and \$332 thousand in miscellaneous expenses comprising the remaining 17%.

Management’s Discussion and Analysis, continued

D. Financial Operation Highlights, continued

The Authority’s financial performance through its cost containment initiatives, low cost structure, and increase in non-aeronautical revenues were recognized by Moody’s Investors Service who affirmed the Baa2 rating on the Authority’s General Revenue Bonds with a stable outlook in November 2015. Key characteristics such as Guam’s increasingly diverse tourism market, strong enplanement activity and resiliency to geopolitical risk contributed to the stable outlook. In addition, the greater minimum annual guarantees and projected sales performance by the Authority’s in-terminal retail concession contract versus the previous operator were cited as factors contributing to the stable outlook. In addition, the Authority is expected to be recognized as a “Low-risk Auditee” for FY2015.

Operational Revenues

Operating income for FY2015 which amounted to \$63.7 million reflects an increase of 2.7% from \$62.0 million in FY2014. Non-aeronautical revenue of approximately \$32.3 million accounted for over 50.8% of total operating income for FY2015. This was the second consecutive year non-aeronautical revenue streams accounted for more than 50% of the Authority’s operating revenue and accounted for 35.8% of total revenues for FY2015.

Concession fees for the Authority was up a modest 2.9% amounting to \$24.0 million in FY2015 versus \$23.3 million in FY2014. The Authority generated \$15.2 million from its general merchandise concessions which is a 3.4% increase over the \$14.7 million in FY2014, accounting for 63.5% of concession revenues and 16.9% of its total revenues. Food and beverage concessions generated \$977 thousand that reflects a 4.4% increase in revenues year-over-year versus the \$936 thousand in FY2014. The averages spend per passenger for general merchandise and F&B was up 3.4% to \$9.58 versus \$9.26 for the same time periods. Car rental activity saw a significant increase of 11.45% to \$1.1 million versus \$987 thousand year-over-year. Ground transportation remained relatively flat for FY2015 but still contributed \$4.6 million, accounting for 19.4% of concession revenues and approximately 5.1% of total revenues for the Authority.

Non-Operating Revenues

FY2015 was a banner year for the Authority as non-operating income contributed \$26.7 million, up 13.5% in comparison to FY2014 figures of \$23.5 million. This increase was mainly attributed to grants from the U.S. government, which amounted to \$19.3 million, reflecting a 52.5% increase over the \$12.6 million received in FY2014. These monies were used to complete several federally funded projects which included the extension and rehabilitation of Runway 6L/24R, installation of a new instrument landing system, noise mitigation, construction of the airport perimeter fence, and acquisition of a new Aircraft Rescue and Firefighting vehicle for the Authority.

Management’s Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Operational Expenses

Operational expenses for the Authority increased by 2.8% year over year, equaling \$39.7 million for FY2015 versus \$38.6 million for FY2014. This may be attributed to the increase in personnel services by 3.8% from \$17.0 million to \$17.7 million due to the retirement contributions of the Authority for the same period. In addition, the Authority absorbed an additional 3.9% increase in contractual services from \$20.3 million in FY2014 to \$21.1 million in FY2015 as the Authority commenced many of its capital improvement projects covered under the 2013 General Revenue Bond covenants. Depreciation and amortization expenses of capital projects grew 10.5% to \$24.2 million versus \$21.9 million year-over-year. The Authority’s cost containment measures resulted in a 12.4% reduction in materials and supplies from \$1.1 million to \$992 thousand, and a 27.8% decrease in bad debt expense from \$162 thousand to \$117 thousand for FY2015. At the close of FY2015, the Authority filled 208 FTEs positions versus the 210 in FY2014.

Non-Operating Expenses

Non-operating expenses for FY2015 decreased by 2.7% due to the installment payments of the Authority’s Long-term liabilities resulting in a decrease in interest and other expenses which amounted to approximately \$13.1 million versus \$13.5 million in FY2014.

Airline Signatory Rates & Charges

The Authority entered into an airport operating and lease agreement with signatory airlines to provide those airlines with the nonexclusive right to use 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. The Authority will proceed with re-negotiations with the signatory airlines for a new agreement which will commence in the 2nd quarter of FY2016. Signatory airlines comprised 99.4% of passenger activity for the Authority. They include the following carriers: United Airlines, Delta Airlines, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Jin Air, Eva Air, Jeju Airlines, Air Busan, T’way Air and Aerospace Concepts.

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Financial Position Summary

A condensed summary of the Authority's Statements of Net Position at September 30, 2015 and 2014 is shown below:

	2015*	2014	% Increase (Decrease)
<u>Assets</u>			
Current assets:			
Unrestricted	\$ 20,635,990	\$ 12,381,284	66.67%
Restricted	2,257,528	2,517,313	-10.32%
Non-current assets:			
Unrestricted	35,247,014	33,124,474	6.41%
Restricted	127,262,590	140,096,676	-9.16%
Capital assets	416,608,609	410,140,238	1.58%
Avigation easements	12,950,068	9,956,947	30.06%
Accounts receivable - trade	1,026,000	1,155,600	-11.21%
Deferred outflows of resources	<u>3,971,470</u>	<u>---</u>	---
Total assets and deferred outflows of resources	\$ <u>619,959,269</u>	\$ <u>609,372,532</u>	1.74%
<u>Liabilities</u>			
Current liabilities:			
Payable from unrestricted assets	\$ 15,022,018	\$ 10,180,792	47.55%
Payable from restricted assets	19,569,217	19,353,141	1.12%
Long-term liabilities	<u>270,587,306</u>	<u>251,650,446</u>	7.53%
Total liabilities	<u>305,178,541</u>	<u>281,184,379</u>	8.53%
Deferred inflows of resources:			
Differences on refunding of 2013 bonds	395,189	486,540	-18.78%
Pension	<u>2,326,760</u>	<u>---</u>	---
Total deferred inflows of resources	<u>2,721,949</u>	<u>486,540</u>	459.45%
<u>Net position</u>			
Net investment in capital assets	178,815,807	158,283,481	12.97%
Restricted	120,561,040	133,105,109	-9.42%
Unrestricted	<u>12,681,932</u>	<u>36,313,023</u>	-65.08%
Total net position	\$ <u><u>312,058,779</u></u>	\$ <u><u>327,701,613</u></u>	-4.77%

* Includes effects of GASB No. 68 implementation.

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Revenues

A summary of revenues for the years ended September 30, 2015 and 2014 and the amount and percentage of change in relation to prior year is as follows:

	2015*	2015 % of total	2014	2014 % of total	% increase (decrease)
<u>Operating revenues</u>					
Facilities and systems usage charges:					
Arrivals facilities	\$ 6,169,615	6.83%	\$ 6,148,322	7.19%	0.35%
Departure facilities	5,890,505	6.52%	5,887,352	6.88%	0.05%
Passenger loading bridge	5,821,495	6.44%	5,799,828	6.78%	0.37%
Landing	2,682,133	2.97%	2,763,526	3.23%	-2.95%
Public apron	2,624,653	2.91%	1,725,965	2.02%	52.07%
Immigration	2,359,688	2.61%	2,292,927	2.68%	2.91%
Utility recovery charge and other fees	490,436	0.54%	550,085	0.64%	-10.84%
Fuel flowage	<u>193,834</u>	0.21%	<u>203,172</u>	0.24%	-4.60%
Total facilities and systems usage charges	<u>26,232,359</u>	29.04%	<u>25,371,177</u>	29.67%	3.39%
Concession fees:					
General merchandise	\$ 15,248,782	16.88%	\$ 14,729,734	17.22%	3.52%
Ground transportation	4,658,780	5.16%	4,695,730	5.49%	-0.79%
Car rental	1,132,445	1.25%	986,970	1.15%	14.74%
Food and beverage	977,418	1.08%	936,410	1.10%	4.38%
In-flight catering	854,722	0.95%	862,540	1.01%	-0.91%
Other	<u>1,128,276</u>	1.25%	<u>1,117,043</u>	1.31%	1.01%
Total concession fees	<u>24,000,423</u>	26.57%	<u>23,328,427</u>	27.28%	2.88%
Rental income:					
Operating space - airline	\$ 4,303,443	4.76%	\$ 3,189,198	3.73%	34.94%
Operating space - non-airline	3,039,164	3.36%	3,902,492	4.56%	-22.12%
Other	<u>3,636,982</u>	4.03%	<u>3,668,534</u>	4.29%	-0.86%
Total rental income	<u>10,979,589</u>	12.15%	<u>10,760,224</u>	12.58%	2.04%
Grants from the U.S Government	478,808	0.53%	879,966	1.03%	-45.59%
Grant from the Government of Guam (OHS)	14,914	0.02%	5,690	0.01%	162.11%
Miscellaneous	<u>2,471,955</u>	2.74%	<u>2,576,611</u>	3.01%	-4.06%
Total operating	<u>64,178,048</u>	71.04%	<u>62,922,095</u>	73.58%	2.00%
<u>Non-operating revenues</u>					
Passenger facility charge	6,606,155	7.31%	6,439,843	7.53%	2.58%
Interest income	767,412	0.85%	637,391	0.75%	20.40%
Capital grants from the U.S. Government	18,789,856	20.80%	11,755,448	13.75%	59.84%
Non-recurring income	<u>---</u>	---	<u>3,760,000</u>	4.40%	-100.00%
Total non-operating revenues	<u>26,163,423</u>	28.96%	<u>22,592,682</u>	26.42%	15.80%
Total revenues	\$ <u><u>90,341,471</u></u>	100.00%	\$ <u><u>85,514,777</u></u>	100.00%	5.64%

* Includes effects of GASB No. 68 implementation.

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Management’s Discussion and Analysis, continued

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Management’s Discussion and Analysis, continued

Expenses

A summary of expenses for the years ended September 30, 2015 and 2014 and the amount and percentage of change in relation to prior year is as follows:

<u>Expenses</u>	<u>2015*</u>	<u>2015</u> <u>% of total</u>	<u>2014</u>	<u>2014</u> <u>% of total</u>	<u>% increase</u> <u>(Decrease)</u>
Contractual services	\$ 21,060,116	27.27%	\$ 20,280,467	27.40%	3.84%
Personnel services	17,674,307	22.89%	17,023,705	23.00%	3.82%
Materials and supplies	992,642	1.29%	1,132,555	1.53%	-12.35%
Bad debt expense	<u>116,918</u>	0.15%	<u>161,974</u>	0.22%	-27.82%
 Total operating expenses	 <u>39,843,983</u>	 51.60%	 <u>38,598,701</u>	 52.15%	 3.23%
 Depreciation and amortization	 <u>24,233,980</u>	 31.38%	 <u>21,915,920</u>	 29.61%	 10.58%
 Non-operating:					
Interest expense	12,806,782	16.59%	13,248,425	17.90%	-3.33%
Bond issuance cost	---	---	54,645	0.07%	---
Other expense	<u>332,285</u>	0.43%	<u>197,463</u>	0.27%	68.28%
 Total non-operating expenses	 <u>13,139,067</u>	 17.02%	 <u>13,500,533</u>	 18.24%	 -2.68%
 Total expenses	 <u>\$ 77,217,030</u>	 100.00%	 <u>\$ 74,015,154</u>	 100.00%	 4.33%
 Total full time employees	 208		 210		

* Includes effects of GASB No. 68 implementation.

Change in net position

	<u>2015*</u>
Total revenues	\$ 90,341,471
Total expenses	<u>77,217,030</u>
 Increase in net position	 13,124,441
 Net position at beginning of year, restated	 <u>298,934,338</u>
 Net position, end of year	 <u>\$ 312,058,779</u>

* Includes effects of GASB No. 68 implementation.

E. Cost per Enplaned Passenger and Debt Service Coverage

Cost per Enplaned Passenger

A summary of the cost per enplaned passenger for the years ended September 30, 2015 and 2014 and the amount and percentage of change in relation to prior year is as follows:

	<u>2015</u>	<u>2015</u> <u>% of total</u>	<u>2014</u>	<u>2014</u> <u>% of total</u>
<u>Airport Revenues</u>				
Signatory airline rentals and fees	\$ 27,839,986	38.77%	\$ 26,955,107	38.52%
Revenue from sources other than signatory airline rentals and fees	36,877,085	51.36%	35,705,042	51.02%
Passenger facility charge income	6,606,155	9.20%	6,439,843	9.20%
Operating grants from the U.S. Government	<u>478,808</u>	0.67%	<u>879,965</u>	1.26%
 Airport revenues	 <u>\$ 71,802,034</u>	 100.00%	 <u>\$ 69,979,957</u>	 100.00%
	<u>2015</u>	<u>% Change</u>	<u>2014</u>	<u>% Change</u>
Signatory airline enplaned passengers	1,683,262	0.58%	1,673,521	-1.21%
Signatory airline cost per enplaned passenger	\$ 16.54	2.67%	\$ 16.11	-6.55%

Debt Service Coverage

Under the Bond Indenture for the issuance of the 2013 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 service coverage for the years ended September 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Airport revenues	\$ 71,057,893	\$ 69,979,957
Less: operation and maintenance expenses	<u>39,894,688</u>	<u>39,116,220</u>
 Net revenues	 31,163,205	 30,863,737
 Plus: other available monies	 <u>5,967,025</u>	 <u>6,066,606</u>
 Net revenues and other available monies	 <u>\$ 37,130,230</u>	 <u>\$ 36,930,343</u>
 <u>Rate covenant</u>		
Net revenues and other available monies	\$ 37,130,230	\$ 36,930,343
Total annual debt service	\$ 23,658,800	\$ 24,266,424
Annual debt service coverage	1.57	1.52
Debt service coverage requirement	1.25	1.25

Management's Discussion and Analysis, continued

F. Outlook for FY2016

FY2016 will be a significant milestone for the Authority as it celebrates its 40th anniversary since its creation. Since 1976, the Authority has been providing a superior and reliable level of airport services for the traveling public and has been a key economic driver for commerce and connectivity in the region, moving passengers safely, efficiently and effectively. These key success factors has enabled the Authority to maintain investor confidence that has fueled the expansion from a small Quonset hut to the modern, state-of-the-art 770,000 square foot international airport facility you see today.

The Authority's capital improvement program, which includes the initial \$247 million for the expansion of the air terminal that was completed in 1998, combined with another \$500 million in airfield enhancements and upgrades, brings the total investment in Guam's only commercial airport to close to \$1 billion dollars as an additional \$167 million in projects are in varying stages of design, completion or will soon commence.

The Concourse Isolation project is one of the most anticipated projects to get underway in FY2016. The construction of this project will be a permanent solution to the TSA mandate to separate arriving and departing passengers, and finally eliminate the temporary partitions that run through the existing concourse, restoring its former aesthetically pleasing environment. In addition, it would alleviate congestion, improve passenger facilitation and enhance the services the Authority can offer and capture additional revenue. The Authority is also looking to acquire 6-8 Automated Passport Control kiosks that would increase efficiency during the Customs and Border Protection processes and facilitate arriving passengers' throughput by as much as 33-58%, reducing wait times and misconnects for travelers arriving or transiting through the A.B. Won Pat Guam International Airport.

Construction for the Hold Bag Screening Relocation project is underway and is scheduled to be completed by the 1st quarter of FY2017. This project will effectively relocate the TSA screening pods behind the ticket counters, facilitating more efficient and enhanced passenger processing in the airline check-in areas, regain the ticket counters that were taken off-line, and restore the departure lobby aesthetics.

Other capital projects focused on enhancing the passenger experience from curb to cabin include replacement and refurbishment of passenger loading bridges, common-use check-in facilities to optimize space for airlines to use for the check-in process, the addition of a single-level parking deck to the terminal parking that will expand parking capacity, and new passenger seating systems throughout the terminal. Second priority projects include the strengthening and expansion of curbside canopies, enclosure of the arrival tunnels, and replacement of the terminal elevators, escalators and moving walkways with modern, energy-efficient equipment. Landscaping of the recently opened Tiyan Parkway will be closely coordinated with the Department of Public Works as Phase II planning commences. This will provide a landscaped corridor that leads to the main terminal consistent with the expanded roadway project.

Management's Discussion and Analysis, continued

F. Outlook for FY2016, continued

In addition to the above, plans for a new inter-island facility for commuter terminal/domestic inter-island operations are underway along with fuel system improvements to improve fire suppression and connections. The Authority will proceed with the design for a new aircraft rescue and firefighting facility that will be fully compliant with FAA standards.

Other federally funded projects the Authority will undertake in FY2016 include the acquisition of a second state-of-the-art 3,000 gallon capacity, aircraft rescue and firefighting vehicle, and a rapid intervention vehicle, design for a new cargo apron and fuel system extension that will serve the Integrated Air Cargo Facility and apron rehabilitation and pavement management programs on the airside operations area of the airport. The construction of the airport perimeter fence which will enclose airport property for enhanced security is expected to be completed in the third quarter of FY2016. The Authority's Residential Sound Solution program will continue as well as the wildlife management assessment and mitigation program. In addition, the FAA has introduced the Safety Management Systems (SMSs), which is becoming a standard for the aviation industry worldwide. This will integrate modern safety risk management and safety assurance concepts into repeatable, proactive systems. SMSs emphasize safety management as a fundamental business process to be considered in the same manner as other aspects of business management.

In terms of air service, the aviation industry composed of some 1,400 commercial airlines, 4,130 airports, and 173 air navigation services providers (ANSPs) will continue to play a critical role in 2016 fostering the growth of tourism and trade worldwide, according to a report published in December 2015 by the International Civil Aviation Organization (ICAO). In its report, ICAO postulates the global airline industry is expected to continue its resurgence in 2016, and repeat its performance from 2015 that reflected a 6.4% increase year-over-year in comparison to 2014. The total number of passengers carried on scheduled services rose to 3.5 billion with over 34 million aircraft movements. North America and the Asia/Pacific region recorded 3.3% and 8.2% growth respectively. According to ICAO, lower fuel costs will help boost economic activity resulting in increased passenger activity worldwide for 2016. Similar reports by the International Air Transport Association (IATA) published in December 2015 reflect comparable outcomes to the ICAO report. In both reports, the emergence of Low Cost Carriers (LCCs) in emerging economies, the additional capacity and fuel-efficient aircraft purchased by legacy airlines, and stable fuel costs (that do not exceed \$65 per barrel), seem to support this premise.

Management’s Discussion and Analysis, continued

F. Outlook for FY2016, continued

This bodes well for the Authority as passenger projections for FY2016 of 1,809,079 projects an aggressive 7.5% outlook year-over-year. Signatory enplanements to the U.S. is expected to follow the ICAO/IATA reports and significant growth from the Asia/Pacific region is anticipated as additional airlines initiate service or up gauge aircraft, notably: 1) Air Busan, which began service in the last quarter of FY2015 from Busan; 2) T’way Air, with daily service from Seoul and 3 times weekly service from Daegu, Korea via Osaka, Japan; 3) Eastar Jet, with service beginning July 2016; 4) Korean Air which introduced a second daily flight that operates in the afternoon; 5) EVA Air increased from 2 to 4 times weekly service from Taipei; and 6) Cebu Pacific has announced 4 times weekly service from Manila, Philippines utilizing an A320 that will begin in Mach 2016. Additionally, other airlines have expressed interest to begin scheduled service to Guam. They include Dynamic Air, which has begun advertising in industry publications for service out of China, and Hong Kong Express which looks to operate the Hong Kong/Guam route. Japan arrivals are expected to remain flat for FY2016 but we foresee a slight boost for charter operations from Russia with Pegas Fly (formerly Ikar Airlines).

In addition to sustained enplanement growth from non-traditional markets that lead to greater passenger density, and completion of the capital programs on time and on budget, the Authority will continue to maintain its cost containment initiatives, taking advantage of lower operating costs and will focus on increasing its non-aeronautical revenues while optimizing its revenue streams. Additionally, the Authority will plan for and implement strategic initiatives that are focused on enhancing the passenger experience at the A.B. Won Pat International Airport Authority, Guam.

The Authority hopes to reduce its CPE for FY2016 to \$15.51 which represents a 10% decrease in CPE from FY2015 while reaffirming its investment grade rating of “BBB with stable outlook” by credit rating agency Standard and Poor’s and maintain its “Baa2 with stable outlook by Moody’s Investors Service. This will ensure that the Authority remains at the forefront of the aviation industry in the region, providing a superior level of airport services, safely, efficiently and effectively and reach new heights in FY2016.

Statement of Net Position

September 30, 2015

Assets	
Current assets:	
Unrestricted assets:	
Cash <i>(Note 3)</i>	\$ 994,826
Passenger facility charge cash <i>(Note 3)</i>	337,087
Accounts receivable, trade, net of allowance for doubtful accounts of \$2,080,843 <i>(Note 3)</i>	6,921,726
Accounts receivable from tenant <i>(Notes 3 and 9)</i>	129,600
Passenger facility charge receivables <i>(Note 3)</i>	637,994
Note receivable from tenant	292,110
Receivables from the United States Government	11,247,304
Inventory and other	<u>75,343</u>
Total unrestricted current assets	<u>20,635,990</u>
Restricted assets:	
Customs fees, cash <i>(Note 3)</i>	175,185
Customs fees, receivables <i>(Note 12)</i>	<u>2,082,343</u>
Total restricted current assets	<u>2,257,528</u>
Total current assets	<u>22,893,518</u>
Accounts receivable from tenant, unrestricted <i>(Notes 3 and 9)</i>	<u>1,026,000</u>
General Revenue Bonds <i>(Note 7)</i> :	
Investments and cash with trustees, unrestricted	35,247,014
Investments and cash with trustees, restricted	<u>127,262,590</u>
	<u>162,509,604</u>
Depreciable capital assets, net <i>(Notes 4 and 11)</i>	299,051,912
Non-depreciable capital assets <i>(Notes 4 and 11)</i>	117,556,697
Avigation easements <i>(Note 4)</i>	12,950,068
Deferred outflows of resources - pension <i>(Note 8)</i>	<u>3,971,470</u>
Total assets and deferred outflows of resources	<u>619,959,269</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Statement of Net Position, continued

September 30, 2015

Liabilities

Current liabilities:

Payable from unrestricted assets:	
Accounts payable - trade	\$ 2,634,063
Accounts payable - construction	6,048,180
Other liabilities <i>(Note 11)</i>	3,737,035
Security deposits	1,217,307
Current portion of annual leave <i>(Note 10)</i>	387,433
Current portion of long-term loan payable to bank <i>(Notes 6 and 10)</i>	998,000
Total payable from unrestricted assets	<u>15,022,018</u>
Payable from restricted assets:	
Customs fees payable to Treasurer of Guam <i>(Note 12)</i>	2,402,667
General Revenue Bonds:	
Current installments <i>(Notes 5 and 10)</i>	10,465,000
Accrued interest	6,701,550
Total payable from restricted assets	<u>19,569,217</u>
Total current liabilities	<u>34,591,235</u>

Non-current liabilities:

Payable from unrestricted assets:	
Accrued sick leave <i>(Notes 8 and 10)</i>	325,104
Long-term portion of annual leave <i>(Note 10)</i>	807,040
Long-term loan payable to bank <i>(Notes 6 and 10)</i>	9,360,932
Net pension liability <i>(Notes 8 and 10)</i>	30,570,481
Payable from restricted assets:	
Long-term bonds payable, less current installments:	
General Revenue Bonds <i>(Notes 5 and 10)</i>	229,523,749
Total non-current liabilities	<u>270,587,306</u>
Total liabilities	<u>305,178,541</u>

Deferred inflows of resources:

Deferred differences on refunding of 2013 bonds <i>(Note 5)</i>	395,189
Pension <i>(Note 8)</i>	2,326,760
Total deferred inflows of resources	<u>2,721,949</u>

Commitments and contingencies *(Notes 5, 6, 9 and 11)*

Net position:

Net investment in capital assets	178,815,807
Restricted for:	
Capital projects <i>(Notes 4 and 11)</i>	90,853,668
Debt service <i>(Notes 5 and 7)</i>	29,707,372
Unrestricted	12,681,932
Total net position	<u>\$ 312,058,779</u>

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2015

Revenues *(Note 5)* :

Facilities and systems usage charges <i>(Note 3)</i>	\$ 26,232,359
Concession fees <i>(Notes 3 and 9)</i>	24,000,423
Rental income <i>(Note 9)</i>	10,979,589
Miscellaneous	<u>2,471,955</u>

	63,684,326
Provision for bad debts	(<u>116,918</u>)
	<u>63,567,408</u>

Operating costs and expenses:

Contractual services <i>(Notes 9 and 11)</i>	21,060,116
Personnel services	17,674,307
Materials and supplies	<u>992,642</u>

Total operating costs and expenses	<u>39,727,065</u>
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Income from operations before depreciation and amortization	23,840,343
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Depreciation and amortization	(<u>24,233,980</u>)
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Operating loss	(<u>393,637</u>)
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Non-operating revenues (expenses):

Passenger facility charge income	6,606,155
Interest income	767,412
Grants from the United States Government	478,808
Grant from Government of Guam - Office of Highway Safety (OHS)	14,914
Interest expense	(12,806,782)
Other expenses, net	(308,915)
Non-recurring expenses	(<u>23,370</u>)

Total non-operating expenses, net	(<u>5,271,778</u>)
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Loss before capital grants	(<u>5,665,415</u>)
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Capital grants from the United States Government	<u>18,789,856</u>
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Increase in net position	13,124,441
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Net position at beginning of year, restated <i>(Note 1)</i>	<u>298,934,338</u>
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Net position at end of year	<u>\$ 312,058,779</u>
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See accompanying notes.

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Statement of Cash Flows

Year ended September 30, 2015

Cash flows from operating activities:	
Cash received from customers	\$ 63,691,284
Cash paid to suppliers for goods and services	(17,492,289)
Cash paid to employees	(17,670,720)
Other operating cash receipts	<u>250,167</u>
Net cash provided by operating activities	<u>28,778,442</u>
Cash flows from investing activities:	
Proceeds from sale of investments	10,711,546
Notes receivable	(292,110)
Investment interest income	<u>767,412</u>
Net cash provided by investing activities	<u>11,186,848</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of airport facilities and avigation easement	(33,695,472)
Principal payment on 2013 General Revenue Bonds	(10,128,573)
Interest paid on 2013 General Revenue Bonds	(12,329,214)
Principal payment on loan payable to bank	(942,261)
Interest paid on loan payable to bank	(625,243)
Passenger facility charge receipts	6,220,863
U.S. Government capital grants	<u>9,962,040</u>
Net cash used in capital and related financing activities	(<u>41,537,860</u>)
Net decrease in cash	(1,572,570)
Cash at beginning of year	<u>3,079,668</u>
Cash at end of year	\$ <u><u>1,507,098</u></u>
Consisting of:	
Unrestricted	\$ 1,331,913
Restricted - current	<u>175,185</u>
	\$ <u><u>1,507,098</u></u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Statement of Cash Flows, continued

Year ended September 30, 2015

Reconciliation of operating loss and other expenses to net cash provided by operating activities:	
Operating loss	\$(393,637)
Other and non-recurring expenses	(<u>82,118</u>)
	(<u>475,755</u>)
Adjustments to reconcile operating loss and other expenses to net cash provided by operating activities:	
Depreciation and amortization	24,233,980
Provision for bad debts	116,918
Non-cash pension costs	3,222,050
(Increase) decrease in assets:	
Accounts receivable	(107,389)
Inventory and other	171,753
Accounts receivable from tenant	129,600
Increase (decrease) in liabilities:	
Accounts payable	2,915,088
Other current liabilities	(1,436,072)
Security deposits and deferred income	(15,253)
Annual leave	<u>23,522</u>
Total adjustments	<u>29,254,197</u>
Net cash provided by operating activities	\$ <u><u>28,778,442</u></u>

See accompanying notes.

Notes to Financial Statements

Year ended September 30, 2015

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.

Net Position

Net position represents the residual of all other elements presented in the statement of net position and is presented in the following categories:

Net investment in capital assets

Capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

Nonexpendable – Net position subject to externally imposed stipulations that require the Authority to maintain them permanently.

Expendable – Net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time.

All of the Authority’s restricted net position at September 30, 2015 is expendable.

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Net Position, continued

Unrestricted

The unrestricted component of net position is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Cash

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

Accounts Receivable

Accounts receivable are primarily due from airlines utilizing the Authority’s airport terminal facilities and various business establishments located in Guam. The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 90 days from the date of billing. 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 and charged as a reduction of revenues.

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.

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Capital Assets and Depreciation and Amortization

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

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

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

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

Capitalization of Interest

The Authority charges to construction-in-progress interest incurred during the period of construction. Interest is capitalized 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.

Impairment of Capital Assets

In accordance with GASB Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* the Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred.

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value.

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Compensated Absences

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

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

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

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

Bond Premium and Discount

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

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Authority recognizes a net pension liability for the pension plan in which it participates, which represents the Authority's proportionate share of total pension liability (actuarially calculated) over the pension plan assets, measured as of the fiscal year end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows or resources depending on the nature of the change, in the period incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. As required by GASB Statements No. 68 and 71, the Authority reports deferred outflows of resources for pension-related amounts: payments since the measurement date, changes in assumptions, and for difference between projected and actual earnings.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources until then. As required by GASB Statement No. 68, the Authority reports deferred inflows of resources for pension-related amounts: for its share of the difference between expected and actual earnings, for its share of the difference between its contributions and its proportionate share of contributions, and for the difference between expected and actual experience. The Authority also reports deferred inflows of resources for the difference between the carrying amount and the reacquisition price of refunded bonds.

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.

Passenger Facility Charges

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

Environmental Costs

In accordance with GASB Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*, 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.

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Environmental Costs, continued

Pollution remediation liabilities are measured using the expected cash flow technique, which measures the liability as the sum of the probability-weighted amounts in a range of possible estimated amounts-the estimated mean or average.

Risk Management

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

Recently Adopted Accounting Pronouncements

As of October 1, 2014, the Authority implemented the following GASB pronouncements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement provides guidance for accounting for net pension liabilities, including definition of balances to be included in deferred inflows and deferred outflows of resources.

GASB Statement No. 71, *Pension Transition for Contributions Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This statement requires that contributions made by participating employers to pension plans after the Measurement Date for the Net Pension Liability but before the end of the financial statement period for the employer be reported as deferred outflows of resources.

The implementation of GASB No. 68 required the Authority to record \$1,808,443 of deferred inflows of resources, \$3,297,500 of deferred outflows of resources and \$30,256,332 of net pension liability, respectively, with a \$28,767,275 charge to beginning net position as of October 1, 2014.

The effects of implementing GASB No. 68 on the Corporation’s net position as of October 1, 2014 have been restated as follows:

	As Previously Reported	Adjustment	Restated
Net position, October 1, 2014	\$327,701,613	\$(28,767,275)	\$298,934,338

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and reporting standards related to government combinations and disposals of government operations. The implementation of this statement did not have any impact on the Authority's accompanying financial statements.

Upcoming Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement establishes accounting and financial reporting standards for fair value measurements, the level of fair value hierarchy, and valuation techniques. GASB Statement No. 72 will be effective for the Authority for fiscal year ending September 30, 2016.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes accounting and financial reporting standards for pensions that do not meet the requirements set forth in Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, and makes some modifications to GASB Statements No. 67 and 68. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. GASB Statement No. 73 will become effective for the Authority for fiscal year ending September 30, 2017.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for periods beginning after June 15, 2016. This Statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. GASB Statement No. 74 will be effective for the Authority for fiscal year ending September 30, 2017.

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017. This Statement replaces the requirement of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. GASB Statement No. 75 will be effective for the Authority for fiscal year ending September 30, 2018.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 will be effective for the Authority for fiscal year ending September 30, 2016.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose information about those agreements. GASB Statement No. 77 will be effective for the Authority for fiscal year ending September 30, 2017.

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. GASB Statement No. 78 will be effective for the Corporation for fiscal year ending September 30, 2017.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. GASB Statement No. 79 will be effective for the Corporation for fiscal year ending September 30, 2017.

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The Statement is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. GASB Statement No. 80 will be effective for the Authority for fiscal year ending September 30, 2017.

The Authority is currently evaluating whether or not the above listed new GASB pronouncements will have a significant impact to the Authority's financial statements.

2. Subsequent Events

The Authority has evaluated subsequent events through March 3, 2016, which is also the date the financial statements were available to be issued.

3. Deposit Risk and Major Customers

The Authority maintains its cash in bank accounts, which at times may exceed federal depository insurance limits. At September 30, 2015, \$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 22% of total operating revenues for the year ended September 30, 2015. Receivables from the primary concessionaire totaled \$409,119 at September 30, 2015.

For the year ended September 30, 2015, approximately 26% of the Authority's total operating revenues, including passenger facility charge income, were derived from one airline customer. At September 30, 2015, the receivable from this airline customer totaled \$3,282,077.

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.

Notes to Financial Statements, continued

4. Airport Facilities

A summary of changes in capital assets for the year ended September 30, 2015 is as follows:

	Beginning Balance October 1, 2014	Additions	Transfers and Deletions	Ending Balance September 30, 2015
Depreciable capital assets:				
Terminal building	\$364,677,488	\$ 276,829	\$ 1,446,804	\$366,401,121
Other buildings	108,996,043	31,510	4,165,579	113,193,132
Airfield area	94,833,369	14,103	57,837,214	152,684,686
Apron area	28,632,976	---	---	28,632,976
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>9,473,713</u>	<u>85,521</u>	<u>209,981</u>	<u>9,769,215</u>
Total capital assets depreciated	631,362,297	407,963	63,659,578	695,429,838
Less accumulated depreciation	<u>(373,153,295)</u>	<u>(23,224,631)</u>	<u>---</u>	<u>(396,377,926)</u>
	<u>\$258,209,002</u>	<u>\$(22,816,668)</u>	<u>\$ 63,659,578</u>	<u>\$299,051,912</u>
Non-depreciable capital assets:				
Land	\$ 57,461,373	\$ ---	\$ ---	\$ 57,461,373
Construction-in-progress	<u>94,469,863</u>	<u>33,287,509</u>	<u>(67,662,048)</u>	<u>60,095,324</u>
	<u>\$151,931,236</u>	<u>\$ 33,287,509</u>	<u>\$(67,662,048)</u>	<u>\$117,556,697</u>

The Authority acquired avigation easements from surrounding residential homeowners in exchange for the cost of installing residential sound insulation. Construction-in-progress at September 30, 2015 included \$4,002,469 of costs associated with the residential sound insulation program. At September 30, 2015, the Authority's avigation easements (net of amortization) amounted to \$12,950,068 and are shown as avigation easements in the accompanying statement of net position.

Notes to Financial Statements, continued

4. Airport Facilities, continued

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

Interest capitalized for the year ended September 30, 2015 totaled \$1,221,561.

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 position. In fiscal year 2001, the Navy paid the Authority \$10,000,000 (see Note 11) and the Authority and the Government of Guam assumed the responsibility for the completion of certain environmental response actions on the property.

5. Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 2015 consisted of the following:

General revenue bonds, Series 2013 (original issue of \$247,335,000):

Varying interest rates (3% - 6.375%) payable semiannually in October and April, principal payments due in varying annual installments with \$10,465,000 due in October 2015	\$237,490,000
Less current installments	(<u>10,465,000</u>)
	227,025,000
Add net unamortized premium on bonds	<u>2,498,749</u>
	<u>\$229,523,749</u>

Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable, continued

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

Year ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	Total <u>Debt Service</u>
2016	\$ 10,465,000	\$ 13,193,800	\$ 23,658,800
2017	10,890,000	12,712,250	23,602,250
2018	11,430,000	12,154,250	23,584,250
2019	12,010,000	11,568,250	23,578,250
2020	12,605,000	10,952,875	23,557,875
2021-2025	60,420,000	44,278,263	104,698,263
2026-2030	19,805,000	33,981,144	53,786,144
2031-2035	26,580,000	27,003,950	53,583,950
2036-2040	35,785,000	17,487,294	53,272,294
2041-2044	<u>37,500,000</u>	<u>4,839,119</u>	<u>42,339,119</u>
	<u>\$237,490,000</u>	<u>\$188,171,195</u>	<u>\$425,661,195</u>

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

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

The 2013 Bonds were obtained for the following:

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

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

The 2013 Bonds bear interest at a rate from 3% to 6.375% and mature on October 1, 2023 for the 2013 Series A (Non-AMT) and on October 1, 2043 for the 2013 Series B (Non-AMT) and 2013 Series C (AMT).

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

Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable, continued

The refunding resulted in a credit difference on refunding of \$3,008,461 representing the difference between the reacquisition price and carrying amount of the 2003 bonds. The Authority netted the \$2,422,781 unamortized difference from prior refunding against the \$3,008,461 difference in current refunding, and the resulting net credit of \$585,743 is to be deferred and amortized over the ten year original amortization period remaining from the 2003 bonds. As of September 30, 2015, the unamortized balance of the difference in refunding totaled \$395,189 as presented in the accompanying statement of net position.

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

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

6. Long-Term Loan Payable to Bank

Long-term loan payable to bank at September 30, 2015 consisted of the following:

First Hawaiian Bank, 5.75% interest rate fixed for 10 years, monthly payments of principal and interest in the amount of \$130,625 starting on February 24, 2014, which will amortize the loan over a period of 10 years. The principal balance and all accrued interest will be due and payable on January 23, 2024. The loan is secured by a Security Agreement and a UCC-1 Financing Agreement. The loan is subject to U.S. Department of Agriculture's (USDA) written commitment to the bank to guaranty no less than 90% of the loan to the Authority	\$10,358,932
Less current installment	<u>998,000</u>
	<u>\$ 9,360,932</u>

Notes to Financial Statements, continued

6. Long-Term Loan Payable to Bank, continued

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. Repayments during the year ended September 30, 2015 amounted to \$942,261. The \$11.9 million is subject to USDA's Loan Note Guarantee, which was executed by USDA on March 10, 2014.

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

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

Future maturities of the long-term loan payable to Bank are as follows:

<u>Year ending September 30,</u>	
2016	\$ 998,000
2017	1,057,000
2018	1,119,000
2019	1,185,000
2020	1,255,000
2021-2024	<u>4,744,932</u>
	<u>\$10,358,932</u>

7. Investments and Cash with Trustees

The aforementioned 2013 bond indenture requires 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, 2015, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

Operations and Maintenance Reserve Fund	\$ 10,978,745
General Revenue Fund	6,941,840
Federal Grant Fund	10,358,733
Risk and Loss Management Reserve Fund	5,439,976
Capital Improvement Fund	1,526,894
Operations and Maintenance Fund	<u>826</u>
Total Unrestricted	<u>35,247,014</u>
Construction Fund	89,846,025
Bond Reserve Fund	19,227,711
Debt Service Fund	17,181,211
Renewal and Replacement Fund	<u>1,007,643</u>
Total Restricted	<u>127,262,590</u>
	<u>\$162,509,604</u>

Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

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

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Based on negotiated trust and custody contracts, all of these investments were held in the Authority’s name by the Authority’s custodial financial institutions at September 30, 2015.

Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

At September 30, 2015, 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	\$ ---	\$ 2,279,670	\$ 300,328	\$ ---	\$ 2,579,998	
US government agencies:							
Federal Home Loan Mortgage Corporation	Aaa/AAA	---	401,248	---	---	401,248	
Federal National Mortgage Association	Aaa/AAA	---	725,476	203,036	160,160	1,088,672	
Corporate notes:							
CDC Funding Corporation	Aa3/A+	---	---	---	9,549,194	9,549,194	
Other	A1/AA+	---	---	60,125	---	60,125	
Other	A1/AA	---	3,429	---	---	3,429	
Other	A1/AA-	---	1,103	---	---	1,103	
Other	BAA1/A-	---	10,988	---	---	10,988	
Other	BAA1/BBB+	---	127,012	5,299	---	132,311	
Other	BAA2/BBB	---	---	74,213	---	74,213	
Other	AAA	---	38,335	8,132	25,953	72,420	
Other	AA+	---	8,033	45,721	---	53,754	
Other	AA	---	26,013	126,951	---	152,964	
Other	AA-	---	---	176,838	---	176,838	
Other	A2/A	---	11,202	10,004	---	21,206	
Other	A+	---	56,876	40,702	---	97,578	
Other	A	---	22,070	375,647	---	397,717	
Other	A-	---	8,066	147,091	---	155,157	
Other	BBB+	---	93,805	63,836	---	157,641	
Other	BBB	---	14,228	30,377	---	44,605	
Other	Not rated	---	29,963	56,299	---	86,262	
Money Market Funds:							
Fidelity Insurance							
Government	AAA/AA+	86,284,003	---	---	---	86,284,003	
US Bank, NA	A	23,188,005	---	---	3,806,590	26,994,595	
Bank of Guam	BBB	23,118,720	---	---	---	23,118,720	
Other	A	5,160,014	---	---	---	5,160,014	
Other	Not Rated	<u>5,512,966</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>5,512,966</u>	
		<u>\$ 143,263,708</u>	<u>\$ 3,857,517</u>	<u>\$ 1,724,599</u>	<u>\$ 13,541,897</u>	\$ 162,387,721	
Accrued interest						<u>121,883</u>	
						<u>\$ 162,509,604</u>	

Notes to Financial Statements, continued

8. Employee Benefits and Other

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plan (DB Plan) and additions to/deductions from the DB Plan’s fiduciary net position have been determined on the same basis as they are reported by the DB Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Employee Retirement Plan

Employees of the Authority hired before September 30, 1995 are under the Government of Guam Employees Retirement System, the 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 single-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.

Contributions

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 contributions rates for employer and employee contributions were 29.85% and 9.50%, respectively, for the year ended September 30, 2015.

The actuarial contribution rate was 29.85% for the year ended September 30, 2015.

Notes to Financial Statements, continued

8. Employee Benefits and Other, continued

Contributions, continued

During the year ended September 30, 2015, contributions made and accrued, which were equal to the required contributions for that year, amounted to \$1,380,600.

Benefits

The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater. Cost-of-living adjustments and other supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015 and 2014, the Authority reported a liability of \$30,570,481 and \$30,256,332, respectively, for its proportionate share of the net pension liability which was an increase of 1.04% from the prior measurement date. At September 30, 2015 and 2014, the Authority’s proportion based on expected defined benefit plan contributions was 2.45% and 2.32%, respectively.

For the year ended September 30, 2015, the Authority recognized pension expense of \$3,335,924.

As of September 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 226,802	\$ ---
Net difference between projected and actual earnings on pension plan investments	---	2,326,760
Authority contributions subsequent to the measurement date	3,173,928	---
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	<u>570,740</u>	<u>---</u>
Total	<u>\$3,971,470</u>	<u>\$2,326,760</u>

Notes to Financial Statements, continued

8. Employee Benefits and Other, continued

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Deferred outflows of resources at September 30, 2015, resulting from the Authority’s employer contributions of \$3,173,928 subsequent to the measurement date will be recognized as a decrease in net pension liability in the year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending September 30,</u>	
2016	\$(96,424)
2017	701,118
2018	701,118
2019	223,406

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial Assumptions

The collective total pension liability being presented as of September 30, 2015 is based upon the September 30, 2013 actuarial valuation, with a measurement date of September 30, 2014. An expected total pension liability is determined as of September 30, 2014 using standard roll-forward techniques. The roll-forward calculation adds the annual normal cost (service cost), subtracts the actual benefit payments and refunds for the year, and then applies the expected single equivalent interest rate for the period.

The actuarial assumptions used are the same as those used for the prior valuation, based upon recommendations from the actuarial experience study for the period October 1, 2007 through September 30, 2011. To the extent that actual experience differs from the assumptions below, future pension costs will differ:

- Actuarial cost method: entry age
- Amortization method: Level percentage of payroll, closed
- Remaining amortization period: May 1, 2031 (16.58 years remaining as of September 30, 2014)
- Asset valuation method: 3-year smoothed market value (effective September 30, 2009)
- Inflation: 2.75% per year
- Interest rate: 7.0% per year
- Payroll growth: 3.0% per year
- Salary increases: 7.5% per year in the first 5 years, 6.0% for years 6-10, 5.0% for years 11 to 15, and 4.5% for service after 15 years.

Notes to Financial Statements, continued

8. Employee Benefits and Other, continued

Actuarial Assumptions, continued

- Retirement age: assume that 40% of employees will retire when first eligible for unreduced retirement, thereafter, 15% of employees will retire at each year until age 65, and 20% of employees will retire from age 65 until age 70, at which time all remaining employees are assumed to retire.
- Investment rate of return: The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best estimate range of expected future real rates of return (expected returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Mortality rates for pre-retirement and post-retirement were based on the RP-2000 combined mortality table, set forward 4 years for males and 1 year for females. The mortality table used for disabled lives was the RP-2000 disability mortality table for males and females.

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the current discount rate of 7.0%, as well as the net pension liability calculated using a discount rate that is one percentage point (1.0%) lower or 1% higher than the current rate:

	1% Decrease <u>6%</u>	Current Discount Rate <u>7.0%</u>	1% Increase <u>8.0%</u>
Net pension liability	<u>\$39,181,309</u>	<u>\$30,570,481</u>	<u>\$24,068,484</u>

Detailed information about the DB Plan’s fiduciary net position is available in the separately issued GGRF financial report.

Notes to Financial Statements, continued

8. Employee Benefits and Other, continued

Expected Remaining Service Lives

Under GASB Statement No. 68, gains and losses that are deferred and amortized over future periods as presented as deferred inflows or gains, and deferred outflows or losses. Economic and demographic gains and losses and changes in the total pension liability due to changes in assumptions are recognized over a closed period equal to the average expected remaining services lives of all covered active and inactive members, determined as of the beginning of the measurement period. The amortization period was calculated at 1.5 years. The amortization period is calculated as the weighted average of expected remaining service lives assuming zero years for all inactive members.

Expected Rate of Return and Asset Allocation

The Fund has a target asset allocation based on the investment policy adopted by the Board of Trustees. The target allocation and best estimates of the expected nominal return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Nominal Return</u>	<u>Component Return</u>
U.S. Equities (large cap)	30.00%	8.12%	2.44%
U.S. Equities (small cap)	10.00%	9.32%	0.93%
Non-U.S. Equities	14.25%	8.76%	1.25%
Non-U.S. Equities (emerging markets)	5.75%	11.03%	0.64%
U.S. Fixed Income (aggregate)	30.00%	4.97%	1.49%
Real Estate (REITs)	10.00%	8.14%	0.81%
Expected average return for one year			7.56%
Expected geometric mean (40 years)			6.90%

The assumption used in the actuarial valuation (7.0%) is slightly higher than the expected geometric average return over the next 40 years. If the investments do not return the expected results, future pension expense will increase.

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.

Notes to Financial Statements, continued

8. Employee Benefits and Other, continued

DCRS, continued

Statutory employer contributions into the DCRS for the years ended September 30, 2015 and 2014 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, 2015 and 2014, contributions made and amounts accrued under the DCRS amounted to \$1,793,328 and \$1,756,918, respectively.

Retirement expense amounted to \$3,696,877 and \$3,283,828 for the years ended September 30, 2015 and 2014, 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, 2015 and 2014, the Authority has accrued an estimated liability of \$325,104. However, this amount is an estimate and actual payout could differ from those estimates.

Other Post-Employment Benefits

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

During the years ended September 30, 2015 and 2014, the Authority’s required contributions to this Plan totaled approximately \$435,000 and \$333,000, respectively.

Notes to Financial Statements, continued

9. Leases

Lotte Duty Free Guam, LLC (Lotte)

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

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

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

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

For the year ended September 30, 2015, the Authority recorded rental income under the Lotte concession agreement totaling \$15,187,753 for use of the main rental space.

Future minimum lease income under the Lotte Concession Agreements as of September 30, 2015 is as follows:

Year ending September 30,	
2016	\$ 15,400,000
2017	15,400,000
2018	15,400,000
2019	15,400,000
2020	15,400,000
2021-2023	<u>43,633,333</u>
Total future minimum lease income	<u>\$120,633,333</u>

Notes to Financial Statements, continued

9. Leases, continued

Pac Air Properties, LLC

The Authority and Pac Air Properties, LLC (Pac Air) have a lease agreement with an initial lease term of fifty (50) years beginning on February 22, 2008, 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. The monthly rent will escalate every five years until the end of the lease term. Starting September 1, 2014, monthly rent increased to \$23,850.

For the year ended September 30, 2015, the Authority accrued rental income totaling \$286,800 and is included as a component of rental income in the accompanying statement of revenues, expenses and changes in net position. At September 30, 2015, accrued rental receivable totals \$1,155,600 and is shown as accounts receivable from tenant in the accompanying statement of net position.

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

Year ending September 30,	
2016	\$ 286,200
2017	286,200
2018	286,200
2019	288,450
2020	313,200
2021 - 2025	1,601,100
2026 - 2030	1,763,100
2031 - 2035	1,930,950
2036 - 2040	2,125,800
2041 - 2045	2,347,650
2046 - 2050	2,590,650
2051 - 2055	2,839,500
2056 - 2059	<u>2,389,950</u>
Total future minimum lease income	<u>\$19,048,950</u>

Notes to Financial Statements, continued

9. Leases, continued

Pac Air Properties, LLC, continued

In 2010, the Authority entered into a lease-back agreement with Pac Air to lease a total of 32,500 square feet of space in the completed facility on the leased premises for 5 years with annual rent expenses of \$1,058,400. Effective October 1, 2014, the lease agreement was extended for an additional 5 years for the 7,500 square feet of space. Effective October 1, 2015, the lease agreement was extended for an additional 5 years for the remaining 25,000 square feet of space. Upon renewal, annual rent expense was reduced to \$923,400.

Rent expense for the year ended September 30, 2015 totals \$1,058,400 and is included under contractual services in the accompanying statement of revenues, expenses and changes in net position.

Future minimal rent expense arising from the Pac Air lease-back agreement is as follows:

<u>Year ending September 30,</u>	
2016	\$ 923,400
2017	923,400
2018	923,400
2019	923,400
2020	<u>923,400</u>
Total future minimum rent expense	<u>\$4,617,000</u>

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. Effective October 1, 2015, the sublease agreement was continued for an additional 5 years with annual rental of \$780,000. Rental income for the year ended September 30, 2015 amounted to \$780,000 and is included under rental income in the accompanying statement of revenues, expenses and changes in net position.

Future minimal sublease income from GovGuam CQA is as follows:

<u>Year ending September 30,</u>	
2016	\$ 780,000
2017	780,000
2018	780,000
2019	780,000
2020	<u>780,000</u>
Total future minimum lease income	<u>\$3,900,000</u>

Notes to Financial Statements, continued

9. Leases, continued

Other Leases

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

Future minimum lease payments on other noncancellable operating leases (excluding the Lotte and Pac Air and GovGuam CQA lease described above) as of September 30, 2015 are as follows:

<u>Year ending September 30,</u>	
2016	\$ 5,926,000
2017	1,552,000
2018	1,666,000
2019	1,665,000
2020	1,674,000
2021 - 2025	3,843,000
2026 - 2030	1,158,000
2031 - 2035	1,104,000
2036 - 2040	<u>419,000</u>
Total future minimum lease income	<u>\$19,007,000</u>

10. Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal year 2015 is as follows:

	Outstanding October 1, <u>2014</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2015</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued sick leave	\$ 325,104	\$ ---	\$ ---	\$ 325,104	\$ ---	\$ 325,104
Accrued annual leave	1,170,951	23,522	---	1,194,473	387,433	807,040
Loan payable to bank	11,301,193	---	942,261	10,358,932	998,000	9,360,932
Net pension liability	30,256,332	4,728,738	4,414,589	30,570,481	---	30,570,481
2013 General revenue bonds	<u>250,025,971</u>	<u>---</u>	<u>10,037,222</u>	<u>239,988,749</u>	<u>10,465,000</u>	<u>229,523,749</u>
	<u>\$293,079,551</u>	<u>\$4,752,260</u>	<u>\$15,394,072</u>	<u>\$282,437,739</u>	<u>\$11,850,433</u>	<u>\$270,587,306</u>

Notes to Financial Statements, continued

11. Commitments and Contingencies

Environmental Response Actions

As discussed in Note 4, in September 2000, the Navy transferred 1,417 acres of property to the Authority and Government of Guam at no cost. In fiscal year 2001, the Navy paid the Authority \$10,000,000 as a lump sum but not in accordance to the payment provisions of the Quitclaim Deed from the Navy. In exchange for the payment, the Authority and the Government of Guam apparently assumed obligations for environmental response actions addressing specific groundwater contamination even if the cost of the response actions exceeds the \$10 million received from the Navy. The Authority's management has received the final 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 Authority's responsibilities under the 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 DD. A portion of the remaining balance of the \$10 million received from the Navy, although reprogrammed to the Capital Improvement Fund, may remain as a contingent unencumbered sum to pay for future sampling and testing requirements.

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, 2014, 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 \$800,929. At September 30, 2015, future pollution remediation and monitoring costs totaling \$748,497, is reflected as a component of other current liabilities in the accompanying statement of net position.

Federal Program Costs

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

As of September 30, 2015, there were no unresolved questioned costs.

Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Commitments

The Authority has commitments totaling approximately \$20.7 million under several construction contracts at September 30, 2015.

In addition, the Authority has commitments under other various contracts totaling approximately \$16.2 million at September 30, 2015.

Insurance

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon damage. The Authority also maintains deposit of \$1 million annually in the Renewal and Replacement Fund which will be combined with funds in the Risk and Loss Management Reserve Fund to cover damage in the event of a natural catastrophe. As of September 30, 2015, the balances in the Renewal and Replacement Fund and Risk and Loss Management Reserve Fund are \$1 million and \$5 million, respectively. 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.

Notwithstanding the requirements of 5 G.C.A. § 22421, the Authority is prohibited by its 2013 General Revenue Bond Indentures (2013 Indentures) and federal law from transferring any funds from its operating surplus to the General Fund. Any diversion of the Authority's revenues under any formula will place the Authority in breach of the 2013 Indentures and will jeopardize ongoing and future federal funding, possibly even subjecting the Authority to millions of dollars in federal civil penalties. Accordingly, the Authority cannot transfer any of its revenues to the General Fund as directed by 5 G.C.A. § 22421 and no liability has been recorded for this contingency as of September 30, 2015. This position has been supported by legal determinations, past and present.

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

Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Government of Guam General Fund, continued

During the course of FY2015, there was no substantive progress of discussions with the Executive and Legislative branches to repeal 5 GCA § 22421 or on the issue of the Government of Guam assessment.

Water System Infrastructure Upgrade

The new airport water system was commissioned and made operational in phases during 2012. 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.

A new water system commercial agreement is currently being drafted between the Authority and GWA to account for operational and maintenance omissions and deficiencies and to improve repair and replacement procedures.

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.

DFS Guam L.P. (DFS) Protest

On October 2, 2013, the Authority requested that DFS pay \$2,104,582 in liquidated damages for DFS's holdover beyond the term of the parties' March 17, 2006 Concession Agreement ("March 17 Agreement"). Pursuant to 11.17 of the March 17 Agreement, in the event DFS holds over beyond the term of the agreement, the Authority is entitled to collect each month from DFS as liquidated damages therefore double the amount of the fees and charges paid to the Authority immediately prior thereto. Although the March 17 Agreement expired on March 17, 2011, DFS remained on the premises until July 20, 2013 and was, therefore, liable for liquidated damages. Notwithstanding the Authority's demand for payment, DFS failed to pay the liquidated damages owing.

Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

DFS Guam L.P. (DFS) Protest, continued

On October 17, 2013, pursuant to Section 13.3.1 of the March 17 Agreement, the Authority submitted a draw down request on the letter of credit given by DFS. The letter of credit was given by DFS pursuant to Section 13.3 of the March 17 Agreement as a guarantee of its full performance of all terms, covenants and conditions in the March 17 Agreement. In December 2013, the draw down request was honored. DFS has disputed the Authority's claim for liquidated damages and filed a government claim and instituted arbitration proceedings:

DFS Government Claim

On December 4, 2013, DFS filed a government claim against the Authority for monetary damages for the Authority's alleged breach of the March 17 Agreement alleging that the Authority wrongfully drew down on DFS's letter of credit. DFS is seeking recovery of \$2,104,582, plus attorneys and costs. On January 26, 2015, the Authority denied DFS's Government Claim. DFS has until July 26, 2016 to commence a civil action in the Superior Court of Guam.

DFS Arbitration Demand

On December 4, 2014, DFS submitted a demand for arbitration for recovery of \$1,854,582, plus interest and attorneys' fees for the Authority's alleged breach of the November 6, 2002 Concession Agreement between the Authority and DFS. The Authority denies that the parties agreed to arbitrate this claim. The final arbitration hearing begins on February 23 and may continue until February 25, 2016 and is pending a decision. The Authority will defend its position vigorously. If DFS prevails, the arbitrator could order the Authority to pay DFS \$1,854,582, plus interest and reasonable attorneys' fees. The Authority accrued \$1,854,582 and recorded it as a component of contractual services in the accompanying statement of revenues, expenses and changes in net position.

GIAA Declaratory Relief Action. *A.B. Won Pat International Airport Authority, Guam vs. DFS Guam L.P., CV0991-15.*

The Authority has filed a civil action against DFS for declaratory relief with regard to the March 17 Agreement, as described above. Although the March 17 Agreement expired on March 17, 2011, DFS remained on the premises until July 20, 2013 and was, therefore, liable for liquidated damages. The Authority determined that it suffered damages totaling \$2,104,582 as a result of DFS's holdover beyond the term. The Authority provided notice to DFS of the liquidated damages and DFS failed to pay the liquidated damages owing. On October 17, 2013, the Authority submitted a draw down request on the letter of credit given by DFS and in December 2013 the draw down request was honored. Since there is an ongoing dispute between the Authority and DFS with regard to their rights and obligations under the March 17 agreement, the Authority now seeks a declaration of the Court as to those rights and obligations.

Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

GIAA Declaratory Relief Action. *A.B. Won Pat International Airport Authority, Guam vs. DFS Guam L.P., CV0991-15, continued*

DFS moved to dismiss the matter for failure to state claims upon which relief may be granted which has not yet been fully briefed. DFS has also requested a stay of discovery until the resolution of the DFS arbitration matter, as described above. DFS's request for stay is also pending and has not yet been fully briefed. The Court is scheduled to hear the pending motions on March 31, 2016. The Authority intends to pursue its claims vigorously.

Exchange License Agreement

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

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

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

Other

In December of 2012, the Department of Administration paid out merit bonuses for line agency employees who met the criteria set forth pursuant to 4 GCA Chapter 6 § 6203. Merit bonuses are to be paid to employees who receive a superior rating evaluation conducted for increment purposes. The Authority is currently conducting its due diligence to determine its obligation to pay out merit bonuses. At September 30, 2013, the Authority has accrued about \$1.5 million as an estimate of costs to pay bonuses for the airport employees. In addition, the Authority has accrued about \$681,000 as costs for the last incremental 10% salary increase for Airport Rescue Firefighters and Airport Police uniformed personnel pursuant to Public Law 29-105. This payment is for fiscal years 2012 and 2013. During the year ended September 30, 2015, the Authority paid approximately \$188,000. At September 30, 2015, \$262,000 remained as unpaid obligation for inactive employees.

Notes to Financial Statements, continued

12. Customs, Agriculture and Quarantine Inspection Services Charge

During the year ended September 30, 2015, 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, 2015, the Authority recorded customs fees payable to the Treasurer of Guam totaling \$2,402,667, for the above charges, of which \$2,082,343 is reflected as customs fees, receivables in the accompanying statement of net position. The fees are not reflected as an expense or revenue by the Authority.

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Schedule 1
Required Supplementary Information
Schedule of the Authority’s Proportionate Share of Net Pension Liability (Unaudited)

Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>
Authority’s proportionate share of the net pension liability	\$30,570,481	\$30,256,332
Authority’s proportion of the net pension liability	2.45%	2.32%
Authority’s covered-employee payroll	\$12,883,180	\$10,356,825
Authority’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	237.29%	292.14%
Plan fiduciary net position as a percentage of total pension liability	56.60%	53.94%

Required Supplementary Information

*This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Supplementary and Other Information

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Schedule 2
Required Supplementary Information
Schedule of the Authority's Contributions (Unaudited)
Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contributions	\$ 3,297,500	\$ 2,857,688	\$ 2,405,802	\$ 2,372,679	\$ 2,241,150	\$ 1,928,192	\$ 1,735,488	\$ 1,597,251	\$ 1,518,374	\$ 1,454,391
Contribution in relation to the contractually required contribution	3,297,500	2,857,688	2,405,802	2,372,679	2,241,150	1,928,192	1,735,488	1,597,251	1,518,374	1,454,391
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 12,788,348	\$ 12,883,180	\$ 10,356,825	\$ 10,295,803	\$ 9,728,359	\$ 9,773,657	\$ 8,903,491	\$ 9,577,755	\$ 8,647,508	\$ 8,555,239
Contribution as a percentage of the Authority's covered-employee payroll	25.79%	22.18%	23.23%	23.05%	23.04%	19.73%	19.49%	16.68%	17.56%	17.00%

Note to Required Supplementary Information (Unaudited)

Changes of Assumptions

Amounts reported in 2015 reflect a change in assumption of payroll growth to 3% rather than 3.5% which was used to determine amounts reported prior to 2015. Amounts reported in 2014 reflect an adjustment of the expectations of salary increases, disability and retirement age to more closely reflect actual experience. The amounts reported in 2011 reflect an expectation of retired life mortality based on the RP-2000 Mortality Table rather than the 1994 U.S. Uninsured Pensioners Table, which was used to determine amounts reported prior to 2011. Amounts reported in 2011 also reflect a change in assumption on valuation of assets to a 3-year phase in for gains/losses relative to interest rate assumption from market value, with fixed income investments at amortized costs which was used to determine amounts reported prior to 2011.

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Year ended September 30, 2015

Schedule 3
Facilities and Systems Usage Charges

Arrival facilities	\$ 6,169,615
Departure facilities	5,890,505
Passenger loading bridge usage charge	5,821,495
Landing	2,682,133
Public apron	2,624,653
Immigration	2,359,688
Utility recovery and other fees	490,436
Fuel flowage	193,834
	<u>\$ 26,232,359</u>

Schedule 4
Concession Fees

General merchandise	\$ 15,248,782
Ground transportation	4,658,780
Car rental	1,132,445
Food and beverage	977,418
In-flight catering	854,722
Money exchange	409,813
Advertising	346,656
Parking lot	179,689
Other	192,118
	<u>\$ 24,000,423</u>

Schedule 5
Rental Income

Operating space:	
- Non-airline	\$ 4,303,443
- Airline	3,039,164
Building and maintenance shop rentals	1,828,413
Other	1,554,497
Cargo rentals	254,072
	<u>\$ 10,979,589</u>

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Schedule 6
Contractual Services

Repairs and maintenance	\$ 5,344,323
Power	5,175,620
Professional services	4,761,865
Miscellaneous	3,473,452
Insurance	891,564
Utilities and telephone	664,497
Advertising and promotions	542,327
Travel/training and certifications	206,468
	<u>\$ 21,060,116</u>

Schedule 7
Personnel Services

Salaries and wages	\$ 13,353,696
Retirement contributions	3,335,924
Insurance	984,687
	<u>\$ 17,674,307</u>
Full-time employee count in September	<u>208</u>

Schedule 8
Materials and Supplies

Equipment and vehicle maintenance and supplies	\$ 359,550
Office and security supplies	248,060
Miscellaneous	139,741
Electrical and plumbing	127,001
Building maintenance and supplies	118,290
	<u>\$ 992,642</u>

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Schedule 9
Insurance Coverage

Name of Insurer	Policy	Risk Coverage
AIG/National Union Fire Insurance Company of Pittsburg, PA.	Airport Operations Liability	\$ 500,000,000
AIG/National Union Fire Insurance Company of Pittsburg, PA.	Property Insurance	\$ 200,000,000
AIG/National Union Fire Insurance Company of Pittsburg, PA.	Catastrophe Insurance	\$ 5,000,000
AIG/National Union Fire Insurance Company of Pittsburg, PA.	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
AIG/National Union Fire Insurance Company of Pittsburg, PA.	Workers' Compensation	\$ 1,000,000
Dongbu Insurance Co., Ltd. Seoul, Korea	Crime Insurance	\$ 1,000,000

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Schedule 10
Reconciliation of Historical Financial Results

Change in net position:	
Revenues	\$ 71,057,893
Expenses	(39,843,983)
Income before depreciation	31,213,910
Depreciation	(24,233,980)
	6,979,930
Interest and other expenses	(13,139,067)
Grant from Government of Guam - OHS	14,914
Operating grant from the United States Government	478,808
Grants from the United States Government	18,789,856
Increase in net position	\$ 13,124,441
Net Revenues (per Bond Resolution):	
Revenues	\$ 71,057,893
Operation and maintenance expenses	(39,894,688)
Net revenues available for debt service	\$ 31,163,205
Reconciliation:	
Change in net position	\$ 13,124,441
Add back:	
Depreciation	24,233,980
Interest expense	12,806,782
Increase in net pension obligation	314,149
Deduct:	
Grants from the United States Government	(18,789,856)
Interest income on funds related to construction	(194,006)
Miscellaneous	(332,285)
	31,163,205
Other available monies	5,967,025
Funds available for debt service	\$ 37,130,230
Debt Service	\$ 23,658,800
Debt Service Ratio	1.57

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Schedule 11
Employee Data

Department	Employees (b)	Personnel Services (a)
Board	1	\$ 60,616
Administration	34 (c)	2,753,271
Property Management	11	914,556
Accounting	10	900,488
Engineering	7	408,908
Operations	20	1,767,348
Properties & Facilities		
Maintenance	40	2,653,918
Airport Police	46	4,230,600
Aircraft Rescue Fire		
Fighting	<u>39</u>	<u>3,984,602</u>
Total	<u>208</u>	\$ <u>17,674,307</u>

Notes:

- a. Above are funded by Operating & Maintenance Fund Account.
- b. Filled positions, not including Limited Term Appointments (LTA's) related to Airport Police pursuant to Transportation Security Administration mandate.
- c. Administration consists of:

Executive management	3
Administrative support	12
Personnel	4
Marketing	4
Procurement	7
Management information system	<u>4</u>
	<u>34</u>