

*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)

*Years ended September 30, 2017 and 2016
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

Years ended September 30, 2017 and 2016

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Report of Independent Auditors

The Board of Directors

Antonio B. Won Pat International Airport Authority, Guam

Report on the Financial Statements

We have audited the accompanying statements of net position of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 22, the Schedule of the Authority's Proportionate Share of the Net Pension Liability on page 62, and the Schedule of the Authority's Contributions on page 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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.

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 64 through 68 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in pages 64 through 67 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 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 68 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 28, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

March 28, 2018

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

Management's Discussion and Analysis

Year ended September 30, 2017

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, 2017. 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.

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

Management's Discussion and Analysis, continued

C. Authority Activities and Highlights

FY 2017 was the second consecutive record breaking year for the Authority. After reaching new heights in FY 2016 with 1,764,191 enplanements, the Authority set the Gold Standard for enplanements amassing 1,858,379 in FY 2017, reflecting a 4.7% growth year-over-year.

Signatory airline activity amounted to 1,832,104 enplanements and accounted for 98.6% of outbound traffic through the A.B. Won Pat International Airport, Guam. Non-signatory activity, mainly charter, general aviation operators, and drop-ins accounted for the remaining 1.4% equating to roughly 26,275 passengers (mainly through 70 charter operations managed by Uzbekistan Airlines via Nagoya). This was an increase of approximately 152.7% year-over-year from FY 2016 activity of 10,399 passengers. 94% of the Authority's passenger base is comprised of origin/destination (O/D) passengers primarily from key markets of Japan, Korea, Taiwan and China.

GIAA's FY 2017 enplanement activity correlates to the Guam Visitors Bureau (GVB) statistics for arrivals via air for FY 2017, which reflects a modest 3.5% growth year-over-year of 1,544,827 visitors to Guam versus the 1,492,249 who used same mode of transportation in FY 2016. This the second consecutive record setting year for GVB in visitor arrivals since its peak in FY 1997.

GVB's report further reveals that visitors from Guam's main origin/destination (O&D) market of Japan accounted for 43.6% of the visitors to our island. This reflects a decrease of 10.4% year-over-year from 752,757 in FY 2016 to 674,343 in FY 2017. Moreover, visitor arrivals from Japan have decreased by 25.2% since FY 2012 (901,683) when there was over 1.4 million seats compared to the 900 thousand seats that currently exist in the market today. The lack of capacity combined with increased competition from regional as well as international destinations, and global geopolitical issues such as the North Korea Missile Threat has diminished the propensity to travel to Guam from this key O&D market.

Conversely, visitors from our second largest O&D market of Korea continues to show strong growth for the fifth consecutive year since FY 2012 that saw 164,821 arrivals increase by 294.02% amounting to 649,435 for FY 2017. This was a 25.0% increase year-over-year from the 519,430 arrivals in FY 2016 and the second consecutive year that Korean arrivals surpassed the "Hafa-Million" mark. This may be attributed to the increase in seat capacity provided by six of the eight South Korean air carriers (Korean Air, Air Busan, Air Seoul, Jeju Air, Jin Air and T'Way) that provide service to Guam and account for 42.0% of arrivals to our island.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Visitor arrivals from Taiwan and China for the same time period registered decreases of 12.7% and 11.8% year-over-year respectively. The suspension of service by Eva Air in June 2017 impacted visitor arrivals from Taiwan which equaled 36,270 in FY 2017 versus 41,534 in FY 2016. Visitor arrivals from China amounted to 23,178 versus 26,271. The loss in seat capacity from Taiwan and limited charter opportunities normally operated by Dynamic Air (due to regional competition) from secondary cities in China such as Guangzhou, Chengdu, Dalian, Nanjing, Shenyang, and Zhengzhou, contributed to the decline in seats from these two potentially explosive markets for Guam. Other airlines that service these developing markets include China Air, and United which operates out of Shanghai.

Philippines, Hong Kong and Russian arrivals were up by almost 32% collectively. Hong Kong arrivals experienced the largest growth of 91.2% among all O&D markets, amassing 16,053 passengers in FY 2017 versus 8,397 in FY 2016. The introduction of HK Express into the market may have contributed to the growth in FY 2017. Philippines visitors which are served by United, Philippine Airlines and Cebu Pacific, increased by 6.0% year-over-year from 18,704 in FY 2016 to 19,818 in FY 2017. Russian Arrivals for the same time period grew by 26.6% from 2,488 the prior year to 3,151 arrivals in FY 2017.

The following airlines served the Authority with scheduled passenger service for FY 2017:

United Airlines, Delta Airlines, China Airlines, Japan Airlines, Korean Air, Philippine Airlines, Jin Air, Eva Airways, Jeju Air, Air Busan, T'Way Air, Cebu Pacific, HK Express, Air Seoul, and Aerospace Concepts (which operates as a business jet service). All-Cargo operators include Asia Pacific Airlines, Federal Express, UPS and Szabo. 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 and Arctic Circle 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.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

	<u>2017</u>	<u>2016</u>	<u>2015</u>	2017 % Increase (Decrease) from 2016
Major revenue sources:				
Landing fees	\$ 3,449,352	\$ 2,725,891	\$ 2,682,133	26.54%
Terminal lease	11,618,961	11,023,891	10,979,589	5.40%
Concessions and parking	<u>24,259,069</u>	<u>24,226,811</u>	<u>23,997,750</u>	0.13%
Total revenues	<u>\$ 39,327,382</u>	<u>\$ 37,976,593</u>	<u>\$ 37,659,472</u>	3.56%
Passenger (enplanement) activity:				
Signatory airlines	1,832,104	1,764,191	1,683,262	3.85%
Non signatory airlines	<u>26,275</u>	<u>10,399</u>	<u>9,681</u>	152.67%
Total enplanements	<u>1,858,379</u>	<u>1,774,590</u>	<u>1,692,943</u>	4.72%
Aircraft operations	<u>60,434</u>	<u>59,424</u>	<u>55,974</u>	1.70%
Aircraft landed weights (000,000)	<u>3,332,805</u>	<u>3,302,529</u>	<u>3,351,229</u>	0.92%
O&D passengers	3,363,788	3,138,750	2,968,921	7.17%
Transfer passengers	<u>215,898</u>	<u>215,449</u>	<u>216,369</u>	0.21%
Total passengers	<u>3,579,686</u>	<u>3,354,199</u>	<u>3,185,290</u>	6.72%

Capital Improvements

FY 2017 was the year of transformation for the Authority! From the physical transformation of our facilities, to the addition of new O&D markets, to changes in our internal processes, the Authority was committed to aim high, work hard and set the gold standard to meet the challenges of our industry and aviation in our region.

The \$32 million Hold Bag Screening Relocation project, funded mainly by a \$26 million dollar grant from the Transportation Security Administration (TSA) was substantially completed and went live September 2017. The project comprised of the relocation and installation of four (4) new state-of-the-art baggage screening pods and the relocation of these pods to a facility behind the airline check-in counters. This was done to optimize the efficiency and effectiveness of the baggage handling and screening system, and facilitate a more efficient and enhanced passenger processing for departing airline passengers. Moreover, the Authority was able to restore the departure lobby aesthetics and triple capacity in this area, regain the ticket counters that were taken off-line, and make room for further expansion and maximization of this integral space.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

The long awaited 3rd Floor Concourse Isolation project was finally put out to bid and awarded. Phase I construction of this \$110 million project commenced in July 2017 that would permanently address the TSA mandate to separate arriving and departing passengers, eliminate the temporary partitions that run through the existing concourse, alleviate congestion, improve passenger facilitation, and enhance the services the Authority can offer while optimizing its revenue generating capabilities in its specialty retail and food and beverage concessions.

Designs are underway for the rehabilitation of the Authority's aprons and taxiways fronting the air terminal and its primary 12,000 feet runway, 6L/24R, that will increase the safety and efficiency of aircraft and ground support equipment operations, personnel activities, passenger movements, and aircraft servicing. In addition, it will extend the Authority's pavements' useful life by repairing spalling of joints, cracks, rutting and other deficiencies on pavement that is well over 20-60 years old.

The Authority also embarked on the construction of a new state-of-the-art, Aircraft Rescue Fire Fighting (ARFF) station to replace the existing 40+ year old facility that was built post-WWII to military specifications. The new design would allow the Authority to optimize this key facility in conformance with the Federal Aviation Administration's (FAA) Advisory Circular 150/5210-15A and compliance with 14 CFR Part 139 requirements. The design layout and floor plan would provide a smooth and unimpeded flow of personnel traffic to reach emergency response vehicles, enhancing the effectiveness and efficiency of emergency services personnel, provide timely response to protect life and property, and minimize the effects of an aircraft accident, incident, or catastrophic event. Phase I of the project is currently underway and includes the demolition and environmental mitigation of an existing on-site facility to make room for the new ARFF station.

In addition to the above, the Authority took delivery of a new, state-of-the-art, 3,000 gallon capacity ARFF truck and a rapid intervention vehicle (RIV) in June 2017. The new truck is the second of four ARFF vehicles to be replaced as part of the Authority's fleet modernization program with more fuel efficient and technologically advanced apparatuses. The RIV provides more flexibility and efficiency to respond to smaller incidents much speedier, safer, and with greater mobility and performance than the larger ARFF trucks. Acoustical testing for residences under the Authority's Residential Sound Solution program commenced in FY 2017 along with the Authority's wildlife management assessment and mitigation program. Additionally, assessments for the development of the Authority's Safety Management Systems (SMSs) program began that would integrate modern safety risk management and assurance concepts into repeatable, proactive systems. Many of these capital improvements and programs were funded through grants by the FAA.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Other capital projects focused on enhancing the passenger experience include: 1) the expansion of the Security Screening Checkpoint area to facilitate passenger processing and increase passenger “dwell” time that will hopefully translate into optimal revenue for the Authority. 2) execution of the Reimbursable Services Agreement with U.S. Customs and Border Protection that has helped to decrease international processing times to under 30 minutes in peak periods. 3) reconfiguration of the Authority's Public Parking facility, ground transportation and commercial vehicle operations parking areas in anticipation of replacing capacity lost from the improvements proposed for Route 10a and to enhance other ground transportation activities; 4) the expansion of the Tiyan Parkway (Phase II) is expected to commence, along with landscaping of these thoroughfares to provide a landscaped corridor that would lead intuitively to the A.B. Won Pat International Airport, Guam; and 5) other improvements and renovations to the Authority's leasehold areas and terminal facilities that are over 24+ years old.

Financial and Operational Results

The Authority set the Gold Standard for excellence in FY 2017, providing a competitive cost structure that continues to entice air service development without sacrificing a superior and reliable level of airport services. Cost per enplaned passenger (CPE) for signatory airlines increased 3.6% to \$16.89 in FY 2017 versus the \$16.30 for FY 2016, can be considered modest growth considering the Authority's rates and charges went up by an average of 12.8% for the year. Debt service coverage (DSC) for FY 2017 was a healthy 1.60, sufficiently covering the 1.25 DSC requirements under the 2013 bond covenants but was slightly less than the 1.82 recorded in FY 2016. The Authority's conservative approach in its exercise of its fiduciary responsibilities and sound financial management, implementation of cost containment initiatives, and enhancement of its revenue streams with emphasis on development of its non-aeronautical activities, has resulted in maintaining a competitive cost structure for airlines. In addition, the Authority was recognized by the Office of Public Accountability, Guam and designated as a “Low-risk Auditee” for the second consecutive year in a row for its financial performance and fiscal responsibility with respect to its management of federal grants and funds. The Authority's efforts and initiatives were key success factors to its financial performance in FY 2017 that has resulted in a change in net position for FY 2017 by 3.0%, an increase of approximately \$9.6 million to \$324.9 million, versus the \$315.4 million recorded for FY 2016.

In light of the Authority's financial performance and outlook, credit rating agencies Standard and Poor's (S&P) and Moody's Investors Services reaffirmed their credit ratings for the General Revenue Bonds issued in 2013, citing strong enplanement growth, monopolistic market position and stable operating performance in spite of normal passenger fluctuations. Moody's Investors Services reaffirmed its rating of Baa2 with stable outlook in January 2017 and S&P's rating of BBB with stable outlook was reaffirmed in July 2017.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

In September 2017, the Authority set the Gold Standard for operations and was once again recognized by the FAA as the only airport in its region to pass its annual certification inspection, with a perfect 100% score with zero discrepancies. This extensive certification process determines compliance with 14 U.S. Code of Federal Regulations (CFR) 139, the Airport's Certification Manual and the Airport Operating Certificate that covers 123 fields of federal compliance emphasizing safety and security. The Authority was the first, and still the only airport in the Pacific Islands to receive this prestigious recognition, and to receive it an unprecedented second year in a row is evidence of the Authority's strict adherence to the highest standards of safety and security in the procedures and operations of the A.B. Won Pat International Airport. As further testament to the Authority's competence and expertise in safety and security, the TSA requested for two teams from the Authority's K-9 unit to augment the security forces during Superbowl LI at NRG Stadium in Houston, Texas. In addition, Japan Airlines continues to conduct pilot training for its personnel using the Authority's facilities. This program is now in its fifth year of operations.

Additionally, the National Travel and Tourism Office (NTTO), US Department of Commerce Authority, recognized the Authority as one of the top 15 ports of entry for international arrivals for all United States ports in 2016. The NTTO report published July 2017 ranked Guam 9th with 1,350,671 arrivals, behind Orlando, Florida with 1,523,024 and ahead of Washington, D.C with 1,034,077. In a preliminary report published by the same agency in December 2017, Guam was holding its 9th place ranking similar to 2016.

D. Financial Operation Highlights

FY 2017 saw a slight increase in the Authority's total assets by 0.3% from \$615.9 million in FY 2016 to \$618.0 million in FY 2017. The increase in operations from the Authority's signatory airline partners, particularly the South Korean carriers, has had a positive impact on the Authority's current assets that is reflected in its facilities and use charges and rental income. In addition, federal grants receivable amounted to \$9.4 million for FY 2017 versus \$5.3 million in FY 2016. In conformance with GASB No. 68 and No. 73, deferred outflow of resources was recorded at \$3.8 million for the current year versus the \$4.5 million in FY 2016.

Total liabilities for the same period above decreased 2.4% to \$292.5 million versus the \$299.7 incurred in FY 2016. The decrease may be attributed to the \$11.4 million in debt service payments made on the 2013 General Airport Revenue Bonds reducing the Authorities non-current liabilities from \$264.7 million to \$252.4 million year-over-year. In conformance with GASB No. 68 and No. 73, deferred inflow of resources related to pension was recorded at \$296 thousand for FY 2017 versus the prior year figure of \$502 thousand in FY 2016.

The Authority's net position for FY 2017 went up 3.0%, an increase of approximately \$9.6 million to \$324.9 million, versus the \$315.4 million recorded for FY 2016.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Total revenues for the Authority increased 5.5% to \$92.6 million in FY 2017 versus the \$87.8 million in FY 2016. The \$4.8 million variance may be attributed mainly to the 7.5% increase in operational revenues of \$70.5 million versus the \$65.6 for the same period, and accounted for 76.1% of the Authority's total revenues

Total expenses for the Authority were up 3.0% to \$83.1 million versus the \$80.6 million compared to FY 2016. Much of the expenses were attributed to contractual services. Operating expenses account for 52.5% of the Authority's expenses, with depreciation and amortization equaling to \$26.8 million accounting for 32.3%, and non-operating expenses covering the remaining 15.2% of approximately \$12.6 million.

Antonio B. Won Pat International Airport Authority, Guam
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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, 2017, 2016 and 2015 is shown below:

		2016*	2015*	2017 % Increase (Decrease) from 2016
<u>Assets</u>	<u>2017</u>	<u>Restated</u>	<u>Restated</u>	
Current assets:				
Unrestricted	\$ 21,475,985	\$ 15,190,235	\$ 20,635,990	41.38%
Restricted	1,982,326	2,439,569	2,257,528	-18.74%
Non-current assets:				
Unrestricted	68,117,428	53,827,597	35,247,014	26.55%
Restricted	91,028,546	112,769,578	127,262,590	-19.28%
Capital assets	420,384,354	414,579,319	415,691,092	1.40%
Avigation easements	10,397,709	11,673,888	12,950,068	-10.93%
Accounts receivable - trade	766,800	896,400	1,026,000	-14.46%
Deferred outflows of resources	<u>3,877,874</u>	<u>4,597,392</u>	<u>4,207,273</u>	-15.65%
Total assets and deferred outflows of resources	\$ <u>618,031,022</u>	\$ <u>615,973,978</u>	\$ <u>619,277,555</u>	0.33%
<u>Liabilities</u>				
Current liabilities:				
Payable from unrestricted assets	\$ 19,946,752	\$ 14,550,122	\$ 15,022,018	37.09%
Payable from restricted assets	20,170,952	20,418,491	19,569,217	-1.21%
Long-term liabilities	<u>252,421,714</u>	<u>264,786,416</u>	<u>273,678,067</u>	-4.67%
Total liabilities	<u>292,539,418</u>	<u>299,755,029</u>	<u>308,269,302</u>	-2.41%
Deferred inflows of resources:				
Differences on refunding of 2013 bonds	237,873	312,187	395,189	-23.80%
Pension	<u>296,651</u>	<u>502,565</u>	<u>2,326,760</u>	-40.97%
Total deferred inflows of resources	<u>534,524</u>	<u>814,752</u>	<u>2,721,949</u>	-34.39%
<u>Net position</u>				
Net investment in capital assets	203,964,899	187,239,983	177,898,290	8.93%
Restricted	84,808,546	106,277,328	120,561,040	-20.20%
Unrestricted	<u>36,183,635</u>	<u>21,886,886</u>	<u>9,826,974</u>	65.32%
Total net position	\$ <u>324,957,080</u>	\$ <u>315,404,197</u>	\$ <u>308,286,304</u>	3.03%

* Includes effects of GASB No. 68 and No. 73 implementation.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Operational Revenues

Operational Revenues which consist of facilities and use charges, concession fees, rental income, and miscellaneous revenues was up 7.4% to \$70.5 million for FY 2017 versus the \$65.6 million in FY 2016. This directly correlates to the increase in revenues for facilities and use charges attributed to the 6.7% increase in total passenger movements of 3,561,619 in FY 2017 versus the 3,354,199 in FY 2016.

Aeronautical revenue for FY 2017 amounted to approximately \$33.1 million and accounted for 42.9% of operational revenues and 32.5% of total revenues. The boost in aeronautical revenues was a combination of increased airline activity and incremental rise to the Authority's rates and charges for FY 2017. Most notably were the revenues received from landing fees which reflect increases of 26.5% from \$2.7 million to \$3.4 million, and public apron (aircraft parking) fees of \$1.6 million, up 56.0% from \$1.0 million the prior year. Airline operating space revenues were up 21.5% from \$3.1 million in FY 2016 to \$3.8 million for FY 2017.

Non-aeronautical revenue, which includes revenue from concession fees, lease of operating space from non-airline and other tenants, as well rental and miscellaneous income from other sources amounted to \$39.9 million and accounted for more 57.0% of total operational revenues and 43.1% of total revenues. This was the 4th consecutive year non-aeronautical revenue streams accounted for more than 50% of the Authority's operating revenue. Overall concession revenue (less in-flight catering) remained relatively flat at \$24 million year-over-year.

General merchandise concession revenue remained relatively flat at \$15.3 million that was contributed in large part through Lotte Duty Free's Minimum Annual Guarantee (MAG), accounting for 21.8% of operating revenue generated by the Authority and 16.5% of total revenues overall. Food and beverage (F&B) concessions were flat for FY 2017 but generated over \$1.1 million – the second time in the Authority's history that F&B revenues exceeded the million dollar mark. The average spend per enplaned passenger for general merchandise and F&B was down 4.2% to \$8.79 versus \$9.58 in the prior year. This may be due to increased passenger activity and congestion experienced in the TSA security screening checkpoints during peak departure times.

For car rental and ground transportation concessions, figures reflect a 17.3% increase in car rentals from \$1.3 million in FY 2016 to \$1.5 million in FY 2017. This, however, was off-set by the 7.5% decrease in ground transportation revenues from \$4.7 million to \$4.3 million for the same time period. This may be an indication in terms of changing demographics of visitors to Guam and the propensity to move away from group to more individual type of ground transportation arrangements.

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

Non-Operating Revenues

Non-operating income which accounts for 23.9% of the Authority's total revenues remained flat year-over-year but contributed \$22.1 million for FY 2017. Grants from the US government amounting to \$14.0 million and passenger facility charges of \$7.3 million account for 94.3% of non-operating income and contribute 14.7% and 7.9%, respectively, towards the Authority's total revenues. These revenues are a result of the Authority's aggressive approach to seeking, requesting, and qualifying for federal assistance to fund airport improvements that will enhance the safety, security, or capacity, reduce airport noise, and increase air carrier competition for Guam's only commercial airport. The majority of monies were used for architectural and engineering design for the seismic upgrades to the terminal facility to include the construction of the 3rd floor arrivals concourse, rehabilitation of the Authority's pavement to include the terminal aprons and runways, and to fund the Hold Bag Screening Relocation project.

Operational Expenses

Operational expenses for the Authority increased by 8.1% year-over-year, equaling \$43.6 million for FY 2017 versus \$40.3 million for FY 2016. The increase is mainly attributed to the 21.2% increase in contractual services of \$24.0 million from \$19.8 million the prior year.

Personnel services and material and supplies expenses were heavily scrutinized and only essential positions and materials and supplies were filled or purchased. The 1.7% decrease in personnel services is attributed to the retirement contributions as a result of the implementation of GASB No. 68 and No. 73. The 2.9% savings in material and supplies expenditures year-over-year is testament to the Authority's prudent financial management.

Depreciation and amortization expenses decreased 3.7% to \$26.8 million versus the \$27.8 million recorded in FY 2016. This may be attributed to the retirement of assets that has reached its useful purpose for a facility that is over 35 years old.

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

Non-Operating Expenses

Non-operating expenses for FY 2017 increased by 1.26% to \$12.6 million versus \$12.5 million in FY 2016. This is mainly attributed to approximately \$765 thousand expensed in FY 2017 due to suspension of smaller capital improvement projects to prioritize funding for the completion of the 3rd Floor Arrivals Concourse project. Otherwise, the Authority continues to pay down its long-term liabilities without incurring additional debt, decreasing its interest expense 9.0% from \$12.4 million to \$11.3 million for the same time period.

Airline Signatory Rates & Charges

The Authority has been renegotiating its airport operating and lease agreement with signatory airlines since its expiration on September 30, 2016. This agreement is vital to the Authority and its signatory airline partners as it 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, at favorable rates. In return, the Authority, with the signatory airline partners as the guarantors, protects its financial position and ability to set rates and charges to cover its cost of operations. The Authority hopes to complete this process for a new agreement to be effective October 1, 2018. For FY 2017, Signatory airlines comprised 98.6% 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, Air Seoul, T'way Air, Cebu Pacific, Aerospace Concepts, and Cape Air.

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, 2017, 2016, and 2015 and the amount and percentage of change in relation to prior year is as follows:

		2017		2016		2015	2017 % Increase (Decrease) from 2016
<u>Operating revenues</u>	<u>2017</u>	<u>% of total</u>	<u>2016*</u>	<u>% of total</u>	<u>2015*</u>	<u>% of total</u>	
Facilities and systems usage charges:							
Departure facilities	\$ 7,262,796	7.84%	\$ 6,400,921	7.29%	\$ 5,890,505	6.52%	13.46%
Arrivals facilities	7,217,137	7.79%	6,702,991	7.63%	6,169,615	6.83%	7.67%
Passenger loading bridge	6,152,234	6.64%	6,859,198	7.81%	5,821,495	6.44%	-10.31%
Landing	3,449,352	3.72%	2,725,891	3.10%	2,682,133	2.97%	26.54%
Immigration	2,561,033	2.76%	2,609,946	2.97%	2,359,688	2.61%	-1.87%
Public apron	1,624,347	1.75%	1,041,373	1.19%	2,624,653	2.91%	55.98%
Utility recovery charge and other fees	517,710	0.56%	480,822	0.55%	490,436	0.54%	7.67%
Fuel flowage	220,539	0.24%	193,372	0.22%	193,834	0.21%	14.05%
Total facilities and systems usage charges	29,005,148	31.30%	27,014,514	30.76%	26,232,359	29.04%	7.37%
Concession fees:							
General merchandise	15,262,095	16.47%	15,218,825	17.33%	15,248,782	16.88%	0.28%
Ground transportation	4,308,545	4.65%	4,658,395	5.30%	4,658,780	5.16%	-7.51%
Car rental	1,493,833	1.61%	1,273,662	1.45%	1,132,445	1.25%	17.29%
Food and beverage	1,076,606	1.16%	1,074,657	1.22%	977,418	1.08%	0.18%
In-flight catering	871,110	0.94%	893,235	1.02%	854,722	0.95%	-2.48%
Other	1,246,880	1.35%	1,108,037	1.26%	1,128,276	1.25%	12.53%
Total concession fees	24,259,069	26.18%	24,226,811	27.59%	24,000,423	26.57%	0.13%
Rental income:							
Operating space - non-airline	4,132,588	4.46%	4,335,216	4.94%	4,303,443	4.76%	-4.67%
Operating space - airline	3,829,763	4.13%	3,097,436	3.53%	3,039,164	3.36%	23.64%
Other	3,656,610	3.95%	3,591,239	4.09%	3,636,982	4.03%	1.82%
Total rental income	11,618,961	12.54%	11,023,891	12.55%	10,979,589	12.15%	5.40%
Grants from the U.S. Government	421,580	0.45%	390,277	0.44%	478,808	0.53%	8.02%
Grant from the Government of Guam (OHS)	28,968	0.03%	24,218	0.03%	14,914	0.02%	19.61%
Miscellaneous	5,185,865	5.60%	2,952,068	3.36%	2,471,955	2.74%	75.67%
Total operating revenues	70,519,591	76.10%	65,631,779	74.74%	64,178,048	71.04%	7.45%
<u>Non-operating revenues</u>							
Passenger facility charge	7,286,165	7.86%	7,058,805	8.04%	6,606,155	7.31%	3.22%
Interest income	1,269,029	1.37%	906,469	1.03%	767,412	0.85%	40.00%
Capital grants from the U.S. Government	13,586,533	14.66%	14,217,549	16.19%	18,789,856	20.80%	-4.44%
Total non-operating revenues	22,141,727	23.90%	22,182,823	25.26%	26,163,423	28.96%	-0.19%
Total revenues	\$ 92,661,318	100.00%	\$ 87,814,602	100.00%	\$ 90,341,471	100.00%	5.52%

* Includes effects of GASB No. 68 and No. 73 implementation.

Receipts from grants from the United States Government amounted to \$14.0 million for FY 2017. The majority of monies were used for architectural and engineering design for the seismic upgrades to the terminal facility to include the construction of the 3rd floor arrivals concourse, rehabilitation of the Authority's pavement to include the terminal aprons and runways, and to fund the Hold Bag Screening Relocation project.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Expenses

A summary of expenses for the years ended September 30, 2017, 2016 and 2015 and the amount and percentage of change in relation to prior year is as follows:

	2017		2016		2015*		2017 % Increase (Decrease) from 2016
<u>Expenses</u>	<u>2017</u>	<u>% of total</u>	<u>Restated</u>	<u>% of total</u>	<u>Restated</u>	<u>% of total</u>	
Contractual services	\$ 23,996,751	28.87%	\$ 19,800,537	24.54%	\$ 21,977,633	27.14%	21.19%
Personnel services	18,267,920	21.98%	18,597,812	23.05%	20,529,265	25.35%	-1.77%
Materials and supplies	1,365,208	1.64%	1,405,940	1.74%	992,642	1.23%	-2.90%
Bad debt expense	-	0.00%	552,772	0.68%	116,918	0.14%	-100.00%
	<u>43,629,879</u>	52.50%	<u>40,357,061</u>	50.01%	<u>43,616,458</u>	53.85%	8.11%
Total operating expenses							
Depreciation and amortization	<u>26,830,443</u>	32.28%	<u>27,848,304</u>	34.51%	<u>24,233,980</u>	29.92%	-3.66%
Non-operating:							
Interest expense	11,281,416	13.57%	12,394,123	15.36%	12,806,782	15.81%	-8.98%
Other expense	<u>1,366,697</u>	1.64%	<u>97,221</u>	0.12%	<u>332,285</u>	0.41%	1305.76%
Total non-operating expenses	<u>12,648,113</u>	15.22%	<u>12,491,344</u>	15.48%	<u>13,139,067</u>	16.22%	1.26%
Total expenses	<u>\$ 83,108,435</u>	100.00%	<u>\$ 80,696,709</u>	100.00%	<u>\$ 80,989,505</u>	100.00%	2.99%
Total full time employees	207		207		208		

* Includes effects of GASB No. 68 and No. 73 implementation.

Change in net position

	<u>2017</u>
Total revenues	\$ 92,661,318
Total expenses	<u>83,108,435</u>
Increase in net position	9,552,883
Net position at beginning of year	<u>315,404,197</u>
Net position, end of year	<u>\$ 324,957,080</u>

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

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, 2017, 2016 and 2015 and the amount and percentage of change in relation to prior year is as follows:

	2017		2016		2015	
<u>Airport Revenues</u>	<u>2017</u>	<u>% of total</u>	<u>2016</u>	<u>% of total</u>	<u>2015</u>	<u>% of total</u>
Signatory airline rentals and fees	\$ 30,935,494	39.35%	\$ 28,752,086	39.29%	\$ 27,839,986	39.18%
Revenue from sources other than signatory airline rentals and fees	39,133,546	49.77%	36,465,198	49.83%	35,844,340	50.44%
Passenger facility charge income	7,286,165	9.27%	7,058,805	9.65%	6,606,155	9.30%
Interest income	<u>1,269,032</u>	<u>1.61%</u>	<u>906,469</u>	<u>1.24%</u>	<u>767,412</u>	<u>1.08%</u>
 Airport revenues	 \$ <u>78,624,237</u>	 100.00%	 \$ <u>73,182,558</u>	 100.00%	 \$ <u>71,057,893</u>	 100.00%
	<u>2017</u>	<u>% Change</u>	<u>2016</u>	<u>% Change</u>	<u>2015</u>	<u>% Change</u>
Signatory airline enplaned passengers	1,832,104	3.85%	1,764,191	4.81%	1,683,262	-0.63%
Signatory airline cost per enplaned passenger	\$ 16.89	3.62%	\$ 16.30	-1.45%	\$ 16.54	-4.06%

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, 2017, 2016 and 2015 is as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017</u>
		<u>Restated</u>	<u>Restated</u>	<u>% Increase</u>
				<u>(Decrease)</u>
				<u>from 2016</u>
Airport revenues	\$ 78,624,237	\$ 73,182,558	\$ 71,057,893	7.44%
Less: operation and maintenance expenses	<u>46,402,193</u>	<u>35,755,878</u>	<u>38,175,542</u>	29.78%
Net revenues	32,222,044	37,426,680	32,882,351	-13.91%
Plus: other available monies	<u>5,967,500</u>	<u>5,968,625</u>	<u>5,967,025</u>	-0.02%
Net revenues and other available monies	\$ <u>38,189,544</u>	\$ <u>43,395,305</u>	\$ <u>38,849,376</u>	-12.00%
 <u>Rate covenant</u>				
Net revenues and other available monies	\$ 38,189,544	\$ 43,395,305	\$ 38,849,376	-12.00%
Total annual debt service	\$ 23,870,000	\$ 23,874,500	\$ 23,868,100	-0.02%
Annual debt service coverage	1.60	1.82	1.63	-12.09%
Debt service coverage requirement	1.25	1.25	1.25	

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

F. Outlook for FY 2018

After 42 years of leadership in civil aviation in our region things keep looking up for the Authority! With more than 3.5 million passenger movements, 60,400 flights enroute from 19 originating points from key asian cities, Micronesia and Honolulu, the Authority remains committed to help grow and strengthen Guam's economy. The Authority continues to aspire to even greater heights in FY 2018 and unveiled "Vision Hulo" – the only direction is up" that will bring Guam's only commercial airport to a whole new level.

As the island's aerotropolis, the Authority will leverage its urban, centrally located key essential facility to Guam's tourism driven economy for commercial growth and economic opportunities. As the gateway to Micronesia, the Authority will strive to provide timely connections for suppliers, manufacturers, distributors, and business people to our local and regional customers, clients and marketplaces.

With the continuation of the more than \$167 million in capital improvement projects that are focused on enhancing the safety and security of our community and traveling public, increasing capacity, reducing airport noise, and emphasis on air service development, the Authority will provide the infrastructure that will create future opportunities for our island community.

Capital Improvements

Phase I of the long awaited 3rd Floor Concourse Isolation project will be completed and Phase II will commence shortly thereafter with the complete build-out of the project scheduled for September 2019. This will finally bring a permanent solution to the TSA mandate to separate arriving and departing passengers, and eliminate the temporary partitions that run through the existing concourse. In addition, it would alleviate congestion, improve passenger facilitation and enhance the services the Authority can offer and capture additional revenue.

The rehabilitation of the Authority's primary 6L/24R and the aprons and taxiways fronting the air terminal will increase the safety and efficiency of aircraft and ground support equipment operations, personnel activities, passenger movements, and aircraft servicing will commence by summer 2018. The repairing of spalling of joints, cracks, rutting and other deficiencies on pavement that is over 20 years old will increase the Authority's pavements' useful life for years to come.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

F. Outlook for FY 2018, continued

Capital Improvements, continued

The Authority will proceed with Phase II in summer of 2018 for the construction of a new state-of-the-art, Aircraft Rescue Fire Fighting station to replace the existing 40+ year old facility that was built to military specifications. The new layout would allow the Authority to optimize this key facility in conformance with AC 150/5210-15A and is essential to maintaining compliance with 14 CFR Part 139. Moreover, the design allows for a layout and floor plan that provides a smooth and unimpeded flow of personnel traffic to reach emergency response vehicles, enhancing the effectiveness and efficiency of emergency services personnel, providing timely response to protect life and property, and minimize the effects of an aircraft accident, incident, or catastrophic event occurring primarily on airport property. Phase I of the project is currently underway and includes the demolition and environmental mitigation of an existing on-site facility to make room for the new ARFF station that will commence construction shortly thereafter.

Other capital projects focused on enhancing the passenger experience from curb to cabin include: 1) the reconfiguration of the departure lobby ticketing and check-in counters and implementation of common use check-in facilities; 2) expansion of the Security Screening Checkpoint area to facilitate passenger processing and increase passenger "dwell" time that will hopefully translate into optimal revenue for the Authority; 3) Reconfiguration of the public parking and commercial ground transportation areas that would be necessary to replace capacity lost from the improvements proposed for Route 10a and to enhance other ground transportation activities; 4) construction for the expansion of the Tiyan Parkway (Phase II) is already underway with demolition of existing facilities and environmental mitigation of the sites; 5) landscaping of Route 10A and the Tiyan Parkway to provide a scenic corridor that would lead intuitively to the A.B. Won Pat International Airport, Guam.

In addition, the Authority continues its residential sound solution program that sound proofs homes surrounding the airport, its wildlife hazard mitigation assessment and safety management system assessment that will help provide for a safe and secure operational environment and culture for airport stakeholders. Other improvements to the Authority's leasehold areas and terminal facilities of a facility that is over 24 years old will continue.

Air Service Development

For FY 2018, the Authority will continue to aggressively seek out airline partners and open new routes to their origin markets and will deploy its resources more strategically. Taking a "Team Guam" approach comprised of its management team along with industry partners from the Guam Visitors' Bureau and the Guam Economic Development Authority, the Authority remains focused on recovering travelers from the island's largest O/D market of Japan.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

F. Outlook for FY 2018, continued

Air Service Development, continued

Emphasis will be focused on incumbent carriers and heavy incentives are in place to entice the airline operators from this key market to increase capacity or begin service on unserved or underserved cities to Guam. Building on the success from South Korea, Team Guam hopes to entice Low Cost Carriers (LCC) JetStar, Air Asia and SkyMark, who have expressed interest in opening up routes from Japan to Guam to begin service by summer of 2018.

The Authority is working closely with its South Korean airline partners to maintain their momentum in FY 2018 and will relentlessly pursue China carriers as more and more airlines and travelers from China are becoming aware of Guam's attractiveness as a resort destination. Additionally, the Authority continues to maintain dialogue with airlines such as Tiger Air Taiwan and EVA Air to initiate or resume service from Taipei, providing connectivity behind their origin points using 5th Freedom rights.

According to a report published by the International Air Transport Association (IATA) in December 2017, airline activity in the Asia-Pacific region is expected to grow 7.6% year-over-year and generate profits of up to \$9 billion USD in spite of the challenges they face with rising fuel, labor and infrastructure expenses. The proliferation of new LCC market entrants in the region are intensifying competition and presents a unique opportunity for Guam as America in Asia, as airlines with increased capacities are looking for prospects for aircraft utilization. The IATA report correlates with the Authority's signatory enplanement projections, which are expected to grow by over 7.1% to 1.96 million for FY 2018 from 1.83 million enplanements in FY 2017.

Financial Results

In spite of the myriad of capital improvements the Authority is undertaking in FY 2018, particularly the \$110 million 3rd Floor Concourse Isolation project, the CPE is projected to remain flat at \$16.87, slightly lower than the \$16.89 recorded for FY 2017. This would allow the Authority to off-set some of the financial impacts from this critical project while maintaining a competitive cost structure for its airline partners. The Authority's debt service covenant ratio for FY 2018 is expected to be 1.50 which sufficiently provides coverage for the 1.25 requirement under the 2013 Bond Covenants.

The Authority's is expecting to being designated as a "Low Risk Auditee" by the Office of Public Accountability, Guam for the third consecutive year in a row for its financial performance and fiscal responsibility with respect to management of federal grants and funds, an indication of their conservative approach and prudent financial management in the execution of its fiduciary responsibilities. Additionally, the Authority will aspire to maintain and continue to pursue upgrade of its investment grade ratings which are currently at "BBB with stable outlook" by credit rating agency Standard and Poor's and "Baa2 with stable outlook" by Moody's Investors Service.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

The Authority is committed to providing a facility that travelers can look forward to experience greater comfort, ease and security upon their departure and a warm welcome upon their arrival to our island. As the caretakers of the Guam's only commercial airport and key essential facility to our island's tourism driven economy, with a total economic contribution of \$2.3 billion in direct, indirect or induced economic activity for our island community, the Authority is proud that the A.B. Won Pat International Airport, Guam is how Guam comes home, and where Guam's future arrives. The Authority will keep looking up and continue to plan strategically, manage its finances prudently, and implement initiatives that are focused on enhancing the passenger experience and maintain a superior level of airport services, safely, securely, efficiently and effectively! With "Vision Hulo" – the Authority will bring Guam to a whole new level!

Antonio B. Won Pat International Airport Authority, Guam
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Statements of Net Position

	September 30, <u>2017</u>	<u>2016</u> (as restated)
Assets		
Current assets:		
Unrestricted assets:		
Cash (<i>Note 3</i>)	\$ 4,005,584	\$ 2,141,020
Passenger facility charge cash (<i>Note 3</i>)	80,045	60,293
Accounts receivable, trade, net of allowance for doubtful accounts of \$1,455,681 at September 30, 2017 (\$2,633,614 at September 30, 2016) (<i>Note 3</i>)	6,029,218	6,163,119
Accounts receivable from tenant (<i>Notes 3 and 9</i>)	129,600	129,600
Passenger facility charge receivables (<i>Note 3</i>)	1,047,906	811,636
Receivables from the United States Government	9,483,277	5,340,503
Inventory and other	<u>516,775</u>	<u>360,484</u>
Total unrestricted current assets	<u>21,292,405</u>	<u>15,006,655</u>
Restricted assets:		
Customs fees, cash (<i>Note 3</i>)	284,588	176,215
Customs fees, receivables (<i>Note 12</i>)	<u>1,697,738</u>	<u>2,263,354</u>
Total restricted current assets	<u>1,982,326</u>	<u>2,439,569</u>
Total current assets	<u>23,274,731</u>	<u>17,446,224</u>
Accounts receivable from tenant, unrestricted (<i>Notes 3 and 9</i>)	<u>766,800</u>	<u>896,400</u>
General Revenue Bonds (<i>Note 7</i>) :		
Investments and cash with trustees, unrestricted	68,117,428	53,827,597
Investments and cash with trustees, restricted	<u>91,028,546</u>	<u>112,769,578</u>
	<u>159,145,974</u>	<u>166,597,175</u>
Depreciable capital assets, net (<i>Notes 4 and 11</i>)	308,157,186	295,564,692
Non-depreciable capital assets (<i>Notes 4 and 11</i>)	112,227,168	119,014,627
Notes receivable from tenant, net allowance for doubtful accounts of \$337,640	183,580	183,580
Avigation easements (<i>Note 4</i>)	10,397,709	11,673,888
Deferred outflows of resources - pension (<i>Note 8</i>)	<u>3,877,874</u>	<u>4,597,392</u>
Total assets and deferred outflows of resources	<u>618,031,022</u>	<u>615,973,978</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam
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Statements of Net Position, continued

	September 30, <u>2017</u>	<u>2016</u> (as restated)
Liabilities		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 3,948,210	\$ 2,481,588
Accounts payable - construction	7,285,961	5,699,097
Other liabilities (Note 11)	3,501,573	3,585,477
Security deposits	3,683,562	1,319,791
Current portion of annual leave (Note 10)	408,245	407,361
Current portion of long-term loan payable to bank (Notes 6 and 10)	<u>1,119,201</u>	<u>1,056,808</u>
Total payable from unrestricted assets	<u>19,946,752</u>	<u>14,550,122</u>
Payable from restricted assets:		
Customs fees payable to Treasurer of Guam (Note 12)	2,520,952	3,036,241
General Revenue Bonds:		
Current installments (Notes 5 and 10)	11,430,000	10,890,000
Accrued interest	<u>6,220,000</u>	<u>6,492,250</u>
Total payable from restricted assets	<u>20,170,952</u>	<u>20,418,491</u>
Total current liabilities	<u>40,117,704</u>	<u>34,968,613</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued sick leave (Notes 8 and 10)	624,153	325,104
Long-term portion of annual leave (Note 10)	846,425	819,217
Long-term loan payable to bank (Notes 6 and 10)	7,185,031	8,304,232
Net pension liability (Notes 8 and 10)	36,921,046	36,887,866
Payable from restricted assets:		
Long-term bonds payable, less current installments:		
General Revenue Bonds (Notes 5 and 10)	<u>206,845,059</u>	<u>218,449,997</u>
Total non-current liabilities	<u>252,421,714</u>	<u>264,786,416</u>
Total liabilities	<u>292,539,418</u>	<u>299,755,029</u>
Deferred inflows of resources:		
Deferred differences on refunding of 2013 bonds (Note 5)	237,873	312,187
Pension (Note 8)	<u>296,651</u>	<u>502,565</u>
Total deferred inflows of resources	<u>534,524</u>	<u>814,752</u>
Commitments and contingencies (Notes 5, 6, 9 and 11)		
Net position:		
Net investment in capital assets	203,964,899	187,239,983
Restricted for:		
Capital projects (Notes 4 and 11)	54,060,720	76,017,225
Debt service (Notes 5 and 7)	30,747,826	30,260,103
Unrestricted	<u>36,183,635</u>	<u>21,886,886</u>
Total net position	<u>\$ 324,957,080</u>	<u>\$ 315,404,197</u>

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30,	
	<u>2017</u>	<u>2016</u> (as restated)
Revenues (Note 5) :		
Facilities and systems usage charges (Note 3)	\$ 29,005,148	\$ 27,014,514
Concession fees (Notes 3 and 9)	24,259,069	24,226,811
Rental income (Note 9)	11,618,961	11,023,891
Miscellaneous	<u>5,185,865</u>	<u>2,952,068</u>
	70,069,043	65,217,284
Provision for bad debts	<u>---</u>	<u>(552,772)</u>
	<u>70,069,043</u>	<u>64,664,512</u>
Operating costs and expenses:		
Contractual services (Notes 9 and 11)	23,996,751	19,800,537
Personnel services	18,267,920	18,597,812
Materials and supplies	<u>1,365,208</u>	<u>1,405,940</u>
Total operating costs and expenses	<u>43,629,879</u>	<u>39,804,289</u>
Income from operations before depreciation and amortization	26,439,164	24,860,223
Depreciation and amortization	<u>(26,830,443)</u>	<u>(27,848,304)</u>
Operating loss	<u>(391,279)</u>	<u>(2,988,081)</u>
Non-operating revenues (expenses):		
Passenger facility charge income	7,286,165	7,058,805
Interest income	1,269,029	906,469
Grants from the United States Government	421,580	390,277
Grant from Government of Guam - Office of Highway Safety (OHS)	28,968	24,218
Interest expense	<u>(11,281,416)</u>	<u>(12,394,123)</u>
Other expenses, net	<u>(1,366,697)</u>	<u>(97,221)</u>
Total non-operating expenses, net	<u>(3,642,371)</u>	<u>(4,111,575)</u>
Loss before capital grants	<u>(4,033,650)</u>	<u>(7,099,656)</u>
Capital grants from the United States Government	<u>13,586,533</u>	<u>14,217,549</u>
Increase in net position	9,552,883	7,117,893
Net position at beginning of year (Note 13)	<u>315,404,197</u>	<u>308,286,304</u>
Net position at end of year	<u>\$ 324,957,080</u>	<u>\$ 315,404,197</u>

See accompanying notes.

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

Statements of Cash Flows

	Year ended September 30, <u>2017</u>	<u>2016</u> (as restated)
Cash flows from operating activities:		
Cash received from customers	\$ 73,261,931	\$ 65,474,192
Cash paid to suppliers for goods and services	(24,430,654)	(21,608,381)
Cash paid to employees	(17,393,995)	(17,553,397)
Other operating cash receipts	<u>28,968</u>	<u>24,218</u>
Net cash provided by operating activities	<u>31,466,250</u>	<u>26,336,632</u>
Cash flows from investing activities:		
Proceeds from sale of (purchase of) investments	7,451,201	(4,087,571)
Notes receivable	---	108,530
Investment interest income	<u>1,269,029</u>	<u>906,469</u>
Net cash provided by (used in) investing activities	<u>8,720,230</u>	(<u>3,072,572</u>)
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities and avigation easement	(29,690,018)	(24,300,362)
Principal payment on 2013 General Revenue Bonds	(11,139,252)	(10,731,754)
Interest paid on 2013 General Revenue Bonds	(12,712,250)	(13,193,800)
Principal payment on loan payable to bank	(1,056,808)	(997,892)
Interest paid on loan payable to bank	(510,697)	(569,612)
Passenger facility charge receipts	7,049,895	6,885,163
U.S. Government capital grants	<u>9,865,339</u>	<u>20,514,627</u>
Net cash used in capital and related financing activities	(<u>38,193,791</u>)	(<u>22,393,630</u>)
Net increase in cash	1,992,689	870,430
Cash at beginning of year	<u>2,377,528</u>	<u>1,507,098</u>
Cash at end of year	\$ <u><u>4,370,217</u></u>	\$ <u><u>2,377,528</u></u>
Consisting of:		
Unrestricted	\$ 4,085,629	\$ 2,201,313
Restricted - current	<u>284,588</u>	<u>176,215</u>
	\$ <u><u>4,370,217</u></u>	\$ <u><u>2,377,528</u></u>

See accompanying notes.

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

Statements of Cash Flows, continued

	Year ended September 30, <u>2017</u>	<u>2016</u> (as restated)
Reconciliation of operating loss and other expenses to net cash provided by operating activities:		
Operating loss	\$(391,279)	\$(2,988,081)
Other and non-recurring expenses	(<u>1,337,729</u>)	(<u>73,003</u>)
	(<u>1,729,008</u>)	(<u>3,061,084</u>)
Adjustments to reconcile operating loss and other expenses to net cash provided by operating activities:		
Depreciation and amortization	26,830,443	27,848,304
Provision for bad debts	---	552,772
Non-cash pension costs	3,865,953	4,312,105
(Increase) decrease in assets:		
Accounts receivable	699,517	24,824
Inventory and other	(156,291)	(285,141)
Accounts receivable from tenant	129,600	129,600
Increase (decrease) in liabilities:		
Accounts payable	2,538,197	132,016
Other current liabilities	(83,904)	(151,558)
Security deposits and deferred income	2,363,771	102,484
Annual leave	28,092	32,105
Sick leave	299,049	---
Net pension liability	(<u>3,319,169</u>)	(<u>3,299,795</u>)
Total adjustments	<u>33,195,258</u>	<u>29,397,716</u>
Net cash provided by operating activities	\$ <u>31,466,250</u>	\$ <u>26,336,632</u>

See accompanying notes.

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

Notes to Financial Statements

Years ended September 30, 2017 and 2016

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, 2017 and 2016 is expendable.

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

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.

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Capital Assets and Depreciation and Amortization

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

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

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

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

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.

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

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 issue. 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 of 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.

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

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 net 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, 71 and 73, 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 net 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 and 73, 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.

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

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

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 effect of implementing GASB Statement No. 73 on the Authority's net position statement of revenues, expenses and changes in net position for the year ended September 30, 2016 have been restated as presented as part of footnote 13.

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*.

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

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.

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.

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. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized costs for financial reporting purposes.

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.

Upcoming Accounting Pronouncements

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 March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB Statement No. 81 will be effective for the Authority for fiscal year ending September 30, 2018.

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In March 2016, GASB issued Statement No. 82, *Pension Issues*. This Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 will be effective for the Authority for fiscal year ending September 30, 2018.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance of this statement. GASB Statement No. 83 will be effective for the Authority for fiscal year ending September 30, 2019.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. GASB Statement No. 84 will be effective for the Authority for fiscal year ending September 30, 2020.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB Statement No. 85 will be effective for the Authority for fiscal year ending September 30, 2018.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB Statement No. 86 will be effective for the Authority for fiscal year ending September 30, 2018.

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. GASB Statement No. 87 will be effective for the Authority for fiscal year ending September 30, 2021.

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 28, 2018, 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, 2017 and 2016, \$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 20% and 21% of total operating revenues for the years ended September 30, 2017 and 2016, respectively. Receivables from the primary concessionaire totaled \$562,940 and \$413,960 at September 30, 2017 and 2016, respectively.

For the years ended September 30, 2017 and 2016, approximately 22% of the Authority's total operating revenues, including passenger facility charge income, were derived from one airline customer. At September 30, 2017 and 2016, the receivable from this airline customer totaled \$1,611,104 and \$1,955,524, respectively.

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

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

Notes to Financial Statements, continued

4. Airport Facilities

A summary of changes in capital assets for the year ended September 30, 2017 is as follows:

	Beginning Balance October 1, 2016	Additions	Transfers and Deletions	Ending Balance September 30, 2017
Depreciable capital assets:				
Terminal building	\$368,902,231	\$ 121,909	\$ 35,358,928	\$404,383,068
Other buildings	114,911,029	74,874	1,305,938	116,291,841
Airfield area	171,241,208	16,500	1,192,775	172,450,483
Apron area	28,632,976	---	---	28,632,976
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>10,078,590</u>	<u>72,634</u>	<u>3,200</u>	<u>10,154,424</u>
Total capital assets depreciated	718,514,742	285,917	37,860,841	756,661,500
Less accumulated depreciation	<u>(422,950,050)</u>	<u>(25,554,264)</u>	<u>---</u>	<u>(448,504,314)</u>
	<u>\$295,564,692</u>	<u>\$(25,268,347)</u>	<u>\$ 37,860,841</u>	<u>\$308,157,186</u>
Non-depreciable capital assets:				
Land	\$ 57,461,373	\$ ---	\$ ---	\$ 57,461,373
Construction-in-progress, restated	<u>61,553,254</u>	<u>31,994,960</u>	<u>(38,782,419)</u>	<u>54,765,795</u>
	<u>\$119,014,627</u>	<u>\$ 31,994,960</u>	<u>\$(38,782,419)</u>	<u>\$112,227,168</u>

A summary of changes in capital assets for the year ended September 30, 2016 is as follows:

	Beginning Balance October 1, 2015	Additions	Transfers and Deletions	Ending Balance September 30, 2016
Depreciable capital assets:				
Terminal building	\$366,401,121	\$ 18,326	\$ 2,482,784	\$368,902,231
Other buildings	113,193,132	86,826	1,631,071	114,911,029
Airfield area	152,684,686	28,618	18,527,904	171,241,208
Apron area	28,632,976	---	---	28,632,976
Terminal area	24,748,708	---	---	24,748,708
Support facilities	<u>9,769,215</u>	<u>309,375</u>	<u>---</u>	<u>10,078,590</u>
Total capital assets depreciated	695,429,838	443,145	22,641,759	718,514,742
Less accumulated depreciation	<u>(396,377,926)</u>	<u>(26,572,124)</u>	<u>---</u>	<u>(422,950,050)</u>
	<u>\$299,051,912</u>	<u>\$(26,128,979)</u>	<u>\$ 22,641,759</u>	<u>\$295,564,692</u>
Non-depreciable capital assets:				
Land	\$ 57,461,373	\$ ---	\$ ---	\$ 57,461,373
Construction-in-progress, restated	<u>59,177,807</u>	<u>25,061,662</u>	<u>(22,686,215)</u>	<u>61,553,254</u>
	<u>\$116,639,180</u>	<u>\$ 25,061,662</u>	<u>\$(22,686,215)</u>	<u>\$119,014,627</u>

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

4. Airport Facilities, continued

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, 2017 and 2016 included \$130,149 and \$3,821, respectively, of costs associated with the residential sound insulation program. At September 30, 2017 and 2016, the Authority's avigation easements (net of amortization) amounted to \$10,397,709 and \$11,673,888, respectively, and are shown as avigation easements in the accompanying statements of net position.

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 years ended September 30, 2017 and 2016 totaled \$1,669,281 and \$1,159,988, respectively.

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

In September 2000, the United States Navy (Navy) transferred approximately 1,417 acres of property surrounding the Airport facilities to the Authority and the Government of Guam at no cost. This land is recorded at its appraised value of \$51,210,000 (at September 2000) and is included as a component of capital assets in the accompanying statements of net 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.

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Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
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 \$11,430,000 due in October 2017	\$216,135,000	\$227,025,000
Less current installments	<u>11,430,000</u>	<u>10,890,000</u>
	204,705,000	216,135,000
Add net unamortized premium on bonds	<u>2,140,059</u>	<u>2,314,997</u>
	<u>\$206,845,059</u>	<u>\$218,449,997</u>

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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	13,230,000	10,307,000	23,537,000
2022	13,885,000	9,629,125	23,514,125
2022-2027	40,535,000	38,646,231	79,181,231
2028-2032	22,280,000	31,434,325	53,714,325
2033-2037	29,910,000	23,560,813	53,470,813
2038-2042	40,370,000	12,757,453	53,127,453
2043-2044	<u>19,880,000</u>	<u>1,254,822</u>	<u>21,134,822</u>
	<u>\$216,135,000</u>	<u>\$162,265,144</u>	<u>\$378,400,144</u>

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable, continued

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 rates 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.

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 \$585,680 is to be deferred and amortized over the ten year original amortization period remaining from the 2003 bonds. As of September 30, 2017 and 2016, the unamortized balance of the difference in refunding totaled \$237,873 and \$312,187, respectively, as presented in the accompanying statements 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.

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Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable, continued

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, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
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	\$8,304,232	\$9,361,040
Less current installments	<u>1,119,201</u>	<u>1,056,808</u>
	<u>\$7,185,031</u>	<u>\$8,304,232</u>

On June 27, 2012, the Authority entered a loan agreement with First Hawaiian Bank (FHB) to finance the Authority's energy efficient upgrades. The loan amount is for \$11.9 million. Repayments during the years ended September 30, 2017 and 2016 amounted to \$1,056,808 and \$997,892, respectively. 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.

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Notes to Financial Statements, continued

6. Long-Term Loan Payable to Bank, continued

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:

Year ending September 30,

2018	\$1,119,000
2019	1,185,000
2020	1,255,000
2021	1,329,000
2022	1,408,000
2023-2024	<u>2,008,232</u>
	<u>\$8,304,232</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, 2017 and 2016, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	<u>2017</u>	<u>2016</u>
Operations and Maintenance Reserve Fund	\$ 11,276,050	\$ 10,990,440
General Revenue Fund	10,531,669	7,538,082
Federal Grant Fund	7,617,006	6,609,232
Risk and Loss Management Reserve Fund	5,968,679	5,658,629
Capital Improvement Fund	26,394,437	19,490,998
Operations and Maintenance Fund	<u>6,329,587</u>	<u>3,540,216</u>
Total Unrestricted	<u>68,117,428</u>	<u>53,827,597</u>
Construction Fund	53,060,368	75,016,873
Bond Reserve Fund	19,290,211	19,358,184
Debt Service Fund	17,677,615	17,394,169
Renewal and Replacement Fund	<u>1,000,352</u>	<u>1,000,352</u>
Total Restricted	<u>91,028,546</u>	<u>112,769,578</u>
	<u>\$159,145,974</u>	<u>\$166,597,175</u>

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

At September 30, 2017 and 2016, investments and cash held by trustees are comprised of the following:

	<u>2017</u>	<u>2016</u>
Cash	\$ 24,779,174	\$ 40,051,014
Investments	<u>134,366,800</u>	<u>126,546,161</u>
	<u>\$159,145,974</u>	<u>\$166,597,175</u>

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, BG Investment & Insurance and Coast 360 Federal Credit Union manage the Federal Fund accounts investing in U.S. Treasury Securities, U.S. government – sponsored enterprises, 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 – sponsored enterprises 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, 2017 and 2016.

Investments Measured at Fair Value

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

The following tables set forth by fair value hierarchy level the Authority's assets carried at fair value:

		At September 30, 2017			
		Level 1		Level 2	Level 3
Investments by fair value level					
Debt securities:					
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 19,263,396	\$ ---	\$ 19,263,396	\$ ---	
Federal National Mortgage Association (FNMA)	12,581,744	---	12,581,744	---	
U.S. Treasury securities	9,622,205	9,622,205	---	---	
Exchange traded products (ETP) - Fidelity Investments	3,876,648	3,876,648	---	---	
Corporate bonds	1,603,781	---	1,603,781	---	
Mutual funds - Fidelity Investments	1,211,427	1,211,427	---	---	
Total investments by fair value level	48,159,201	\$ 14,710,280	\$ 33,448,921	\$ ---	
Investments measured at the net asset value (NAV)					
Money market funds (MMF) - Fidelity Investments	43,392,285				
MMF - US Bank, NA	17,677,615				
Investments measured at a cost based measure					
Time certificates of deposit (TCD)	15,588,505				
Guaranteed Investment Contracts (GIC) -					
Natixis Funding Corp. (Natixis)	9,549,194				
	\$ 134,366,800				

		At September 30, 2016						
		Level 1		Level 2		Level 3		
Investments by fair value level								
Debt securities:								
U.S. Treasury securities	\$	8,792,599	\$	8,792,599	\$	---	\$	---
FHLMC		5,348,684		---		5,348,684		---
FNMA		3,071,673		---		3,071,673		---
Corporate bonds		1,800,934		---		1,800,934		---
Federal Farm Credit Banks Funding Corporation		800,192		---		800,192		---
Total investments by fair value level		19,814,082	\$	<u>8,792,599</u>	\$	<u>11,021,483</u>	\$	<u>---</u>
Investments measured at NAV								
MMF - Fidelity Investments		70,010,408						
MMF - US Bank, NA		17,436,749						
Investments measured at a cost based measure								
TCD		9,735,728						
GIC - Natixis		9,549,194						
	\$	<u>126,546,161</u>						

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Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

The Authority's credit quality distribution for debt securities at September 30, 2017 and 2016 is as follows:

At September 30, 2017			At September 30, 2016		
	Standard & Poor's/Moody's Credit Rating	Amount		Standard & Poor's/Moody's Credit Rating	Amount
FHLMC	AA/Aaaa	\$ 19,263,396	FNMA	AA	\$ 3,071,673
FNMA	AA/Aaaa	12,581,744	FHLMC	AA	5,348,684
Corporate bonds	Aaa/AAA	66,169	Corporate bonds	Aaa/AAA	66,592
Corporate bonds	Aa/AA	290,804	Corporate bonds	Aa/AA	315,993
Corporate bonds	A	903,187	Corporate bonds	A/AA	65,295
Corporate bonds	Baa/BBB	343,621	Corporate bonds	A/A	15,751
MMF	Unrated	61,069,900	Corporate bonds	A	881,630
GIC	Unrated	9,549,194	Corporate bonds	BBB	10,214
			Corporate bonds	Baa/BBB	434,929
			Corporate bonds	Baa/BBB	434,929
			Corporate bonds	Baa/A	10,530
			MMF	Unrated	87,447,157
			GIC	Unrated	9,549,194

At September 30, 2017 and 2016, the Authority had the following investments and maturities:

At September 30, 2017					
Investment type	Total	Less than 1	1 - 5	6 - 10	More than 10
MMF	\$ 61,069,900	\$ 61,069,900	\$ ---	\$ ---	\$ ---
FHLMC	19,263,396	16,276,705	2,986,691	---	---
TCD	15,588,505	15,339,378	249,127	---	---
FNMA	12,581,744	10,692,366	1,889,378	---	---
U.S. Treasury securities	9,622,205	698,811	8,923,394	---	---
GIC	9,549,194	---	---	9,549,194	---
ETP	3,876,648	3,876,648	---	---	---
Corporate bonds	1,603,781	305,145	1,298,636	---	---
Mutual funds	1,211,427	1,211,427	---	---	---
	<u>\$ 134,366,800</u>	<u>\$ 109,470,380</u>	<u>\$ 15,347,226</u>	<u>\$ 9,549,194</u>	<u>\$ ---</u>

At September 30, 2016					
Investment type	Total	Less than 1	1 - 5	6 - 10	More than 10
MMF	\$ 87,447,157	\$ 87,447,157	\$ ---	\$ ---	\$ ---
TCD	9,735,728	8,078,949	656,806	999,973	---
GIC	9,549,194	---	---	9,549,194	---
U.S. Treasury securities	8,792,599	775,653	8,016,946	---	---
FHLMC	5,348,684	3,406,208	1,942,476	---	---
FNMA	3,071,673	551,404	2,120,713	399,556	---
Corporate bonds	1,800,934	281,896	1,466,983	52,055	---
FFCBFC	800,192	---	398,744	401,448	---
	<u>\$ 126,546,161</u>	<u>\$ 100,541,267</u>	<u>\$ 14,602,668</u>	<u>\$ 11,402,226</u>	<u>\$ ---</u>

Antonio B. Won Pat International Airport Authority, Guam
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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.

Members of the DB Plan and the DCRS also receive ad hoc cost of living allowance and supplemental annuity benefits (COLA benefits) that are appropriated yearly by the Guam Legislature. Those benefits are deemed to be substantively automatic, requiring reporting under GASB Statement No. 73.

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.

The Authority's statutory contribution rates were 27.41% and 28.16%, respectively, for the years ended September 30, 2017 and 2016. Employees are required to contribute 9.5% of their annual pay for the years ended September 30, 2017 and 2016.

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Notes to Financial Statements, continued

8. Employee Benefits and Other, continued

Contributions, continued

The actuarial employer contribution rate was 27.41% and 28.16% for the years ended September 30, 2017 and 2016, respectively.

The Authority is invoiced by the Government of Guam Department of Administration for its share of COLA benefits. The rate per retiree is \$2,000 for the cost of living allowance and \$4,501 for the supplemental annuity benefits.

During the years ended September 30, 2017 and 2016, contributions made and accrued, which were equal to the required contributions for those years, amounted to \$2,966,912 and \$3,060,666, respectively.

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.

COLA 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, 2017 and 2016, the Authority reported a liability of \$36,921,046 and \$36,887,866, respectively, for its proportionate share of the net pension liability which was an increase of 4.21% from the prior measurement date. At September 30, 2017 and 2016, the Authority's proportion based on expected defined benefit plan contributions was 2.23% and 2.14%, respectively.

For the years ended September 30, 2017, and 2016, the Authority recognized pension expense of \$3,975,806 and \$4,444,526, respectively.

Antonio B. Won Pat International Airport Authority, Guam
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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

As of September 30, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 25,130	\$(121,261)	\$ 399,899	\$(11,083)
Net difference between projected and actual earnings on pension plan investments	---	(175,390)	364,340	---
Authority contributions subsequent to the measurement date	3,226,930	---	3,308,707	---
Changes in assumption	239,807	---	511,905	---
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	<u>386,007</u>	<u>---</u>	<u>12,541</u>	<u>(491,482)</u>
	<u>\$ 3,877,874</u>	<u>\$(296,651)</u>	<u>\$ 4,597,392</u>	<u>\$(502,565)</u>

Deferred outflows of resources at September 30, 2017 and 2016, resulting from the Authority's employer contributions of \$3,226,930 and \$3,308,707, respectively, subsequent to the measurement date will be recognized as a decrease in net pension liability in the years ending September 30, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ 14,242
2019	90,805
2020	293,812
2021	(161,745)
2022	9,793
Thereafter	<u>107,386</u>
	<u>\$ 354,293</u>

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, 2017 and 2016 is based upon the September 30, 2015 and 2014 actuarial valuation, respectively, with a measurement date of September 30, 2016 and 2015, respectively. An expected total pension liability is determined as of September 30, 2015 and 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.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

8. Employee Benefits and Other, continued

Actuarial Assumptions, continued

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 (14.58 years remaining as of September 30, 2016)
- 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.
- Retirement age:
 - DB Plan: 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.
 - DCRS: assume that 5% per year from age 55 to 64, 10% per year from age 65 to age 74, and 100% at age 75.
- 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.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

8. Employee Benefits and Other, continued

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 6.71%, 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 5.70% DB <u>2.058% DCRS</u>	Current Discount Rate 6.70% DB <u>3.058% DCRS</u>	1% Increase 7.70% DB <u>4.058% DCRS</u>
Net pension liability	<u>\$44,184,094</u>	<u>\$36,921,046</u>	<u>\$30,661,807</u>

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

Expected Remaining Service Lives

Under GASB Statement No. 68, gains and losses that are deferred and amortized over future periods are 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 1.3 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 GGRF 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 Asset Allocation</u>	<u>Expected Nominal Return</u>	<u>Component Return</u>
U.S. Equities (large cap)	29%	8.78%	2.55%
U.S. Equities (small cap)	7%	9.45%	0.66%
Non-U.S. Equities	12%	9.15%	1.10%
Non-U.S. Equities (small cap)	4%	9.15%	0.37%
Non-U.S. Equities (emerging markets)	2%	10.75%	0.22%
U.S. Fixed Income (aggregate)	25%	4.85%	1.21%
Risk Parity	8%	8.36%	0.67%
High Yield Bonds	8%	7.35%	0.59%
Global Real Estate (REITs)	5%	8.71%	0.44%
Expected average return for one year			7.81%
Expected geometric mean (30 years)			7.18%

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

8. Employee Benefits and Other, continued

Expected Rate of Return and Asset Allocation, continued

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.

Statutory employer contributions into the DCRS for the years ended September 30, 2017 and 2016 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, 2017 and 2016, contributions made and amounts accrued under the DCRS amounted to \$2,189,281 and \$2,203,151, respectively.

Retirement expense amounted to \$3,367,688 and \$3,452,012 for the years ended September 30, 2017 and 2016, 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, 2017 and 2016, the Authority has accrued an estimated liability of \$624,153 and \$325,104, respectively. However, this amount is an estimate and actual payout could differ from those estimates.

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Notes to Financial Statements, continued

8. Employee Benefits and Other, continued

Other Post-Employment Benefits

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

During the years ended September 30, 2017 and 2016, the Authority's required contributions to this Plan totaled approximately \$518,000 and \$479,000, respectively.

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 future use of 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 arrival 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 years ended September 30, 2017 and 2016, the Authority recorded rental income under the Lotte concession agreement totaling \$15,209,115 and \$15,160,000, respectively, for use of the main rental space.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

9. Leases, continued

Lotte Duty Free Guam, LLC (Lotte), continued

Future minimum lease income under the Lotte Concession Agreement as of September 30, 2017 is as follows:

Year ending <u>September 30,</u>	
2018	\$15,160,000
2019	15,160,000
2020	15,160,000
2021	15,160,000
2022	15,160,000
2023	<u>12,633,333</u>
Total future minimum lease income	<u>\$88,433,333</u>

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 lease agreement allowed for Pac Air to defer remittance of lease payments until September 1, 2014 whereupon the deferred rent is to be remitted to the Authority 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 years ended September 30, 2017 and 2016, the Authority accrued rental income totaling \$286,200 and is included as a component of rental income in the accompanying statements of revenues, expenses and changes in net position. At September 30, 2017 and 2016, accrued rental receivable totaled \$896,400 and \$1,026,000, respectively, and is shown as accounts receivable from tenant in the accompanying statement of net position.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

9. Leases, continued

Pac Air Properties, LLC

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

<u>Year ending September 30,</u>	
2018	\$ 286,200
2019	288,450
2020	313,200
2021	313,200
2022	313,200
2023 - 2027	1,665,900
2028 - 2032	1,827,900
2033 - 2037	2,006,550
2038 - 2042	2,212,200
2043 - 2047	2,444,850
2048 - 2052	2,687,850
2053 - 2057	2,947,500
2058 - 2059	<u>1,169,550</u>
Total future minimum lease income	<u>\$18,476,550</u>

The Authority has a lease-back agreement, expiring in 2020, with Pac Air to lease a total of 32,500 square feet of space in the completed facility on the leased premises.

Rent expense for the years ended September 30, 2017 and 2016 totals \$1,058,000 and is included under contractual services in the accompanying statements 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>	
2018	\$1,058,400
2019	1,058,400
2020	<u>923,400</u>
Total future minimum rent expense	<u>\$3,040,200</u>

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

9. Leases, continued

Pac Air Properties, LLC, continued

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 years ended September 30, 2017 and 2016 amounted to \$780,000 and is included under rental income in the accompanying statements of revenues, expenses and changes in net position.

Future minimal sublease income from GovGuam CQA is as follows:

Year ending September 30,

2018	\$ 780,000
2019	780,000
2020	<u>780,000</u>
Total future minimum lease income	<u>\$2,340,000</u>

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 expired on September 30, 2016 and the lease agreements with six rent-a-car companies expired on June 2016. These agreements are currently under month-to-month extensions pending negotiated agreements. Other ground lease agreements will expire ranging from September 2015 through September 2035.

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, 2017 are as follows:

Year ending September 30,

2018	\$ 1,998,000
2019	2,000,000
2020	1,894,000
2021	1,674,000
2022	1,346,000
2023 - 2027	1,369,000
2028 - 2032	1,300,000
2033 - 2037	1,309,000
2038 - 2040	<u>354,000</u>
Total future minimum lease income	<u>\$13,244,000</u>

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

10. Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal year 2017 is as follows:

	Outstanding October 1, <u>2016 restated</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2017</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued sick leave	\$ 325,104	\$ 299,049	\$ ---	\$ 624,153	\$ ---	\$ 624,153
Accrued annual leave	1,226,682	859,225	831,237	1,254,670	408,245	846,425
Loan payable to bank	9,361,040	---	1,056,808	8,304,232	1,119,201	7,185,031
Net pension liability	36,887,866	3,341,887	3,308,707	36,921,046	---	36,921,046
2013 General revenue bonds	<u>229,339,997</u>	<u>---</u>	<u>11,064,938</u>	<u>218,275,059</u>	<u>11,430,000</u>	<u>206,845,059</u>
	<u>\$277,140,689</u>	<u>\$4,500,161</u>	<u>\$16,261,690</u>	<u>\$265,379,160</u>	<u>\$12,957,446</u>	<u>\$252,421,741</u>

A summary of changes in long-term liabilities during fiscal year 2016 is as follows:

	Outstanding October 1, <u>2015 restated</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2016 restated</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued sick leave	\$ 325,104	\$ ---	\$ ---	\$ 325,104	\$ ---	\$ 325,104
Accrued annual leave	1,194,473	998,448	966,239	1,226,682	407,361	819,321
Loan payable to bank	10,358,932	---	997,892	9,361,040	1,056,808	8,304,232
Net pension liability	33,661,242	6,636,355	3,409,731	36,887,866	---	36,887,866
2013 General revenue bonds	<u>239,988,749</u>	<u>---</u>	<u>10,648,752</u>	<u>229,339,997</u>	<u>10,890,000</u>	<u>218,449,997</u>
	<u>\$285,528,500</u>	<u>\$7,634,803</u>	<u>\$16,022,614</u>	<u>\$277,140,689</u>	<u>\$12,354,169</u>	<u>\$264,786,520</u>

Antonio B. Won Pat International Airport Authority, Guam
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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. 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 specific environmental response actions addressing groundwater contamination even if the cost of the response actions exceeds the \$10 million received from the Navy. The Authority's management has assisted in preparing a draft 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 calls for extraction and treatment at Well NAS-1 and future wells, if necessary, and natural attenuation. The draft 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 Remedial Action are limited to groundwater sampling and testing as currently performed. A new task is for the Authority to conduct a 5 year review to ensure the remedial action continues to be protective of human health and the environment. In the near future, the ongoing sampling and testing requirements will be reduced or completely eliminated. The granular activated carbon (GAC) treatment provided under the Authority's new water system satisfies the GAC treatment component of future wells meeting the selected remedy. No further obligation of the Authority is required under the draft DD.

The 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, 2017 and 2016, future pollution remediation and monitoring costs totaling \$348,742 and \$530,329, respectively, are reflected as a component of other current liabilities in the accompanying statements of net position.

Federal Program Costs

The Authority receives, on a reimbursement basis, grants from the U.S. Government for certain capital construction projects. 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.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Commitments

The Authority has commitments totaling approximately \$89.7 million under several construction contracts at September 30, 2017.

In addition, the Authority has commitments under other various contracts totaling approximately \$12.3 million at September 30, 2017.

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, 2017 and 2016, 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, 2017 and 2016. This position has been supported by legal determinations, past and present.

During the year ended September 30, 2017, 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.

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.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

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 negotiated between the Authority and GWA to account for operational and maintenance omissions and deficiencies and to improve repair and replacement procedures. Presently, there are real estate issues that are under discussion to allow GWA the ability to expand the capacity of the water reservoirs.

Litigation

The Authority is involved in certain litigation inherent to its operations. The Authority intends to vigorously defend its position and management is of the opinion that liabilities of a material nature will not be realized.

DFS Guam L.P. (DFS) Arbitration

The Authority and its former concessionaire, DFS Guam L.P., are involved with ongoing disputes related to the former concessionaire's Concession Agreement with the Authority that had expired in 2013.

In 2014, the matter was submitted to arbitration. In 2016, the arbitration panel awarded DFS \$1.9 million in damages plus interest, costs, and attorney's fees. GIAA is seeking to vacate and DFS is seeking to confirm the arbitration award in the Superior Court of Guam. A separate but related action arising from this dispute has been filed by DFS in which both parties have filed claims and counterclaims against each other alleging various breaches of contract. As of September 30, 2017, there has been no resolution among the parties to settle the matter. The Authority has vigorously defended itself against all claims but has recorded a provision for loss amounting to \$1.9 million as a component of other liabilities.

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.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Exchange License Agreement, continued

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 buildings 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. At September 30, 2017 and 2016, \$262,000 remained as unpaid obligation for inactive employees.

12. Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2017 and 2016, 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.

For the years ended September 30, 2017 and 2016, fees assessed to air carriers related to the aforementioned arrangement totaled approximately \$13.3 million and \$12.7 million, respectively. For the years ended September 30, 2017 and 2016, remittances to the Treasurer of Guam related to the aforementioned arrangement totaled approximately \$10.2 million and \$9 million, respectively. For the years ended September 30, 2017 and 2016, the Authority offset \$3.6 million and \$3 million, respectively of customs fee payable with amounts owed from GovGuam CQA for its various lease agreements with the Authority.

At September 30, 2017 and 2016, the Authority recorded customs fees payable to the Treasurer of Guam totaling \$2,520,952 and \$3,036,241, respectively, for the above charges, of which \$1,697,738 and \$2,263,354, respectively, is reflected as customs fees, receivables in the accompanying statements of net position. The fees are not reflected as an expense or revenue by the Authority.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

13. Restatement

The Authority restated its previously issued financial statements to (1) account for the effects of implementing GASB No. 73 and (2) correct for overstatement of non-depreciable capital assets. The Authority's net position as of October 1, 2015 and the Authority's statement of revenues, expenses and changes in net position for the year ended September 30, 2016 have been restated to reflect this correction as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of October 1, 2015:			
Non-depreciable capital assets	\$ <u>117,556,697</u>	\$(<u>917,517</u>)	\$ <u>116,639,180</u>
Deferred outflows of resources			
pension	\$ <u>3,829,352</u>	\$ <u>235,803</u>	\$ <u>4,065,155</u>
Net pension liability	\$(<u>30,570,481</u>)	\$(<u>3,090,761</u>)	\$(<u>33,661,242</u>)
Net position	\$(<u>312,058,779</u>)	\$ <u>3,772,475</u>	\$(<u>308,286,304</u>)
As of September 30, 2016:			
Non-depreciable capital assets	\$ <u>120,235,064</u>	\$(<u>1,220,437</u>)	\$ <u>119,014,627</u>
Deferred outflows of resources			
pension	\$ <u>3,829,352</u>	\$ <u>768,040</u>	\$ <u>4,597,392</u>
Net pension liability	\$(<u>32,241,435</u>)	\$(<u>4,646,431</u>)	\$(<u>36,887,866</u>)
Deferred inflows of resources			
pension	\$(<u>379,783</u>)	\$(<u>122,782</u>)	\$(<u>502,565</u>)
Net position	\$(<u>320,625,807</u>)	\$ <u>5,221,610</u>	\$(<u>315,404,197</u>)
For the year ended September 30, 2016:			
Contractual services	\$ <u>19,497,617</u>	\$ <u>302,920</u>	\$ <u>19,800,537</u>
Personnel services	\$ <u>17,451,597</u>	\$ <u>1,146,215</u>	\$ <u>18,597,812</u>
Change in net position	\$(<u>8,567,028</u>)	\$ <u>1,449,135</u>	\$(<u>7,117,893</u>)

Required Supplementary Information

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 and
Collective Pension Liability (Unaudited)

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportionate share of the net pension liability - DB Plan	\$ 35,619,152	\$ 35,844,160	\$ 32,603,776	\$ 30,256,332
Authority's proportionate share of the net pension liability - DCRS	<u>1,301,894</u>	<u>1,043,706</u>	<u>1,057,466</u>	<u>---</u>
	\$ 36,921,046	\$ 36,887,866	\$ 33,661,242	\$ 30,256,332
Authority's proportion of the net pension liability - DB Plan	2.23%	2.14%	2.19%	2.32%
Authority's proportion of the net pension liability - DCRS	2.11%	2.00%	2.26%	---
Authority's covered-employee payroll	\$ 13,107,529	\$ 12,788,348	\$ 12,883,180	\$ 10,356,825
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	282.00%	288.00%	261.00%	292.00%

*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.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contributions	\$ 3,060,666	\$ 3,178,277	\$ 3,297,500	\$ 2,857,688	\$ 2,405,802	\$ 2,372,679	\$ 2,241,150	\$ 1,928,192	\$ 1,735,488	\$ 1,597,251
Contribution in relation to the contractually required contribution	3,060,666	3,178,277	3,297,500	2,857,688	2,405,802	2,372,679	2,241,150	1,928,192	1,735,488	1,597,251
Contribution excess	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 13,107,529	\$ 13,353,696	\$ 12,788,348	\$ 12,883,180	\$ 10,356,825	\$ 10,295,803	\$ 9,728,359	\$ 9,773,657	\$ 8,903,491	\$ 9,577,755
Contribution as a percentage of the Authority's covered-employee payroll	23.35%	23.80%	25.79%	22.18%	23.23%	23.05%	23.04%	19.73%	19.49%	16.68%

Note to Required Supplementary Information (Unaudited)

Changes of Assumptions

Amounts reported in 2016 reflect a change in assumption of administrative expenses to \$6,078,000 per year rather than \$5,806,000.

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.

Supplementary and Other Information

Antonio B. Won Pat International Airport Authority, Guam
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Years ended September 30, 2017 and 2016

Schedule 3
Facilities and Systems Usage Charges

	<u>2017</u>	<u>2016</u>
Departure facilities	\$ 7,262,796	\$ 6,400,921
Arrival facilities	7,217,137	6,702,991
Passenger loading bridge usage charge	6,152,234	6,859,198
Landing	3,449,352	2,725,891
Immigration	2,561,033	2,609,946
Public apron	1,624,347	1,041,373
Utility recovery and other fees	517,710	480,822
Fuel flowage	220,539	193,372
	<u>\$ 29,005,148</u>	<u>\$ 27,014,514</u>

Schedule 4
Concession Fees

	<u>2017</u>	<u>2016</u>
General merchandise	\$ 15,262,095	\$ 15,218,825
Ground transportation	4,308,545	4,658,395
Car rental	1,493,833	1,273,662
Food and beverage	1,076,606	1,074,657
In-flight catering	871,110	893,235
Money exchange	416,576	441,926
Advertising	376,494	284,776
Parking lot	253,692	192,231
Other	200,118	189,104
	<u>\$ 24,259,069</u>	<u>\$ 24,226,811</u>

Schedule 5
Rental Income

	<u>2017</u>	<u>2016</u>
Operating space:		
- Non-airline	\$ 4,132,588	\$ 4,335,216
- Airline	3,829,763	3,097,436
Building and maintenance shop rentals	1,776,860	1,755,089
Other	1,621,698	1,569,135
Cargo rentals	258,052	267,015
	<u>\$ 11,618,961</u>	<u>\$ 11,023,891</u>

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Schedule 6
Contractual Services

	<u>2017</u>	<u>2016</u> (as restated)
Repairs and maintenance	\$ 7,304,789	\$ 6,438,512
Professional services	7,227,844	5,394,278
Power	5,135,682	3,821,612
Miscellaneous	1,981,049	1,740,385
Advertising and promotions	858,447	734,070
Insurance	639,610	767,951
Utilities and telephone	577,557	596,504
Travel/training and certifications	<u>271,773</u>	<u>307,225</u>
	<u>\$ 23,996,751</u>	<u>\$ 19,800,537</u>

Schedule 7
Personnel Services

	<u>2017</u>	<u>2016</u>
Salaries and wages	\$ 13,253,631	\$ 13,107,529
Retirement contributions	3,975,506	4,444,526
Insurance	<u>1,038,783</u>	<u>1,045,757</u>
	<u>\$ 18,267,920</u>	<u>\$ 18,597,812</u>
Full-time employee count in September	<u>207</u>	<u>207</u>

Schedule 8
Materials and Supplies

	<u>2017</u>	<u>2016</u>
Equipment and vehicle maintenance and supplies	\$ 471,611	\$ 487,793
Office and security supplies	318,563	272,612
Electrical and plumbing	230,532	196,623
Miscellaneous	222,197	334,274
Building maintenance and supplies	<u>122,305</u>	<u>114,638</u>
	<u>\$ 1,365,208</u>	<u>\$ 1,405,940</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
Sompo Japan Nippon Koa Insurance Inc.	Property Insurance	\$ 200,000,000
Sompo Japan Nippon Koa Insurance Inc.	Catastrophe Insurance	\$ 5,000,000
Dongbu Insurance Co., Ltd. Seoul, Korea	Directors & Officers Liability (Sublimit of \$1,000,000 for Employment Practices Liability)	\$ 4,000,000
Dongbu Insurance Co., Ltd. Seoul, Korea	Automobile	\$ 2,000,000
Dongbu Insurance Co., Ltd. Seoul, Korea	Workers' Compensation	\$ 1,000,000
Dongbu Insurance Co., Ltd. Seoul, Korea	Crime Insurance	\$ 1,000,000

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Schedule 10
Reconciliation of Historical Financial Results

	Year ended September 30, <u>2017</u>	<u>2016</u> (as restated)
Change in net position:		
Revenues	\$ 78,624,237	\$ 73,182,558
Expenses	(43,629,879)	(40,357,061)
Income before depreciation	34,994,358	32,825,497
Depreciation	(26,830,443)	(27,848,304)
	8,163,915	4,977,193
Interest and other expenses	(12,648,113)	(12,491,344)
Grant from Government of Guam - OHS	28,968	24,218
Operating grants from the United States Government	421,580	390,277
Grants from the United States Government	<u>13,586,533</u>	<u>14,217,549</u>
Increase in net position	<u>\$ 9,552,883</u>	<u>\$ 7,117,893</u>
Net Revenues (per Bond Resolution):		
Revenues	\$ 78,624,237	\$ 73,182,558
Operation and maintenance expenses	(46,402,193)	(35,755,878)
Net revenues available for debt service	<u>\$ 32,222,044</u>	<u>\$ 37,426,680</u>
Reconciliation:		
Change in net position	\$ 9,552,883	\$ 7,117,893
Add back:		
Depreciation	26,830,443	27,848,304
Interest expense	11,281,416	12,394,123
Increase in net pension obligation	33,180	4,646,431
Deduct:		
Capital grants from the United States Government	(13,586,533)	(14,217,549)
Interest income on funds related to construction	(522,648)	(265,301)
Miscellaneous	<u>(1,366,697)</u>	<u>(97,221)</u>
	32,222,044	37,426,680
Other available monies	<u>5,967,500</u>	<u>5,968,625</u>
Funds available for debt service	<u>\$ 38,189,544</u>	<u>\$ 43,395,305</u>
Debt Service*	<u>\$ 23,870,000</u>	<u>\$ 23,874,500</u>
Debt Service Ratio	1.60	1.82

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Schedule 11
Employee Data

Department	Employees (a)		Personnel Services (b)	
	2017	2016	2017	2016
Board	1	1	\$ 54,022	\$ 63,978
Administration	29 (c)	34 (c)	3,490,634	2,115,744
Property Management	11	11	847,073	855,967
Accounting	11	11	961,682	1,078,169
Engineering	11	7	883,289	673,402
Operations	23	19	1,751,162	1,925,193
Properties & Facilities Maintenance	39	40	2,685,222	3,102,570
Airport Police	47	47	4,178,941	4,807,045
Aircraft Rescue Fire Fighting	35	37	3,415,895	3,975,744
Total	<u>207</u>	<u>207</u>	\$ <u>18,267,920</u>	\$ <u>18,597,812</u>

Notes:

a. Filled positions, not including Limited Term Appointments (LTA's) related to Airport Police pursuant to Transportation Security Administration mandate.

b. Above are funded by Operating & Maintenance Fund Account.

c. Administration consists of:	<u>2017</u>	<u>2016</u>
Executive management	3	3
Administrative support	11	11
Personnel	3	5
Marketing	3	3
Procurement	5	7
Management information system	4	5
	<u>29</u>	<u>34</u>



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