

*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, 2016 and 2015  
with Report of Independent Auditors*



**Building a better  
working world**

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, 2016 and 2015

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## Report of Independent Auditors

### **The Board of Directors**

### **Antonio B. Won Pat International Airport Authority, Guam**

### **Report on the Financial Statements**

We have audited the accompanying 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, 2016 and 2015, 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, 2016 and 2015, 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 18, the Schedule of the Authority's Proportionate Share of the Net Pension Liability on page 56, and the Schedule of the Authority's Contributions on page 57 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 58 through 62 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in pages 58 through 61 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 62 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 January 30, 2017 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*

January 30, 2017

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, 2016

The following Management's Discussion and Analysis of the Antonio B. Won Pat International Airport Authority, Guam's (the "Authority") activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ("FY") ended September 30, 2016. 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 4<sup>th</sup> 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**

After three consecutive years of enplanements just below 1.7 million passengers, the Authority reached new heights in FY 2016 as passenger activity surpassed this threshold growing 4.8% year-over-year and equaling to 1,774,590 in comparison to the 1,692,943 enplanements in FY 2015. Signatory airline activity amounted to 1,764,191 enplanements and accounted for 99.4% 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 .6% equating to roughly 10,399 passengers, an increase of 7.4% year-over-year from FY 2015 activity of 9,681 passengers. 93.57% of the Authority's passenger base is comprised of origin/destination (O/D) passengers primarily from key markets of Japan, Korea, Taiwan and China.

A cursory comparison of data from the Guam Visitors Bureau (GVB) for FY 2016 reflects 10.1% growth year-over-year of 1,579,609 visitors to Guam versus the 1,492,347 who visited in FY 2015. FY 2016 not only shattered the record breaking year experienced by GVB in FY 2015, it was also the first time that visitors from Korea surpassed the "Hafa-Million" mark amounting to 519,430, up 35.2% from prior year figure of 384,112, and a whopping 214.5% growth since 2012 which equaled to 165,143 visitors. The proliferation of Low Cost Carriers (LCC) such as Jeju Airlines, Air Busan, Jin Air and T'Way Air, along with legacy carrier Korean Air, accounted for 32.9% of visitors from this secondary market to Guam.

The GVB report further revealed that visitors from our main origin/destination market of Japan decreased by another 3.4% year-over-year from 779,445 visitors in FY 2015 to 752,757 in FY 2016. Japan still remains as one of the largest O/D markets, accounting for 47.7% of the visitors to Guam. Despite a slight recovery in economic activity of approximately 2.2%, which can be attributed to an increase in exports, it was not enough to overcome the decrease in private consumption as consumer spending declined due to a combination of inflation and low wage growth. Moreover, a devalued Yen (¥) as part of Prime Ministers Shinzo Abe's economic stimulus package failed to yield the results anticipated to spur foreign direct investments and increase household incomes that could have otherwise created discretionary income and increase the potential for Japanese travelers.

Visitors from China reflected moderate growth of 11.4% in the GVB report amounting to 26,271 versus the prior year's figure of 23,589 visitors in FY 2015. This marks the fourth consecutive year of double digit growth from this market and reflects a 190.6% increase over the 9,040 visitors in FY 2012. Airlines that service this developing market include Eva Air that connects via Taiwan, along with China Air and United operating out of Shanghai. Dynamic Air operated 33 charters out of secondary cities such as Guangzhou, Chengdu, Dalian, Nanjing, Shenyang, and Zhengzhou.

A look at the Russian visitor figures for FY 2016 reflects a 29.7% decrease to 2,488 in FY 2016 from the prior year figure of 3,539. This can be attributed to a contracting economy and the lack of direct service to this once promising market which had seen exponential growth in arrivals since being granted parole authority to travel to Guam in 2012. During the same time period, visitors from the Philippines amounting to 18,704, reflect an increase of 52.3% from 12,278 visitors in FY 2015. The increase in capacity from this market with the addition of Cebu Pacific and services provided by United and Philippine Air combined with strong economic performance has created a propensity for travel to and from a country with strong ties to Guam.

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>2016</u>	<u>2015</u>	<u>2014</u>	2016 % Increase (Decrease) from 2015
Major revenue sources:				
Landing fees	\$ 2,725,891	\$ 2,682,133	\$ 2,763,527	1.63%
Terminal lease	11,023,891	10,979,589	10,760,224	0.40%
Concessions and parking	<u>24,226,811</u>	<u>23,997,750</u>	<u>23,328,427</u>	0.95%
 Total revenues	 <u>\$ 37,976,593</u>	 <u>\$ 37,659,472</u>	 <u>\$ 36,852,178</u>	 0.84%
Passenger (enplanement) activity:				
Signatory airlines	1,764,191	1,683,262	1,673,521	4.81%
Non signatory airlines	<u>10,399</u>	<u>9,681</u>	<u>17,379</u>	7.42%
 Total enplanements	 <u>1,774,590</u>	 <u>1,692,943</u>	 <u>1,690,900</u>	 4.82%
 Aircraft operations	 <u>59,424</u>	 <u>55,974</u>	 <u>53,228</u>	 6.16%
Aircraft landed wights (000,000)	<u>3,302,529</u>	<u>3,351,229</u>	<u>3,605,575</u>	-1.45%
 O&D passengers	 3,138,750	 2,968,921	 2,970,320	 5.72%
Transfer passengers	<u>215,449</u>	<u>216,369</u>	<u>210,551</u>	-0.43%

*Capital Improvements*

FY 2016 marked the 40<sup>th</sup> anniversary of the Authority since its creation in 1976 under Public Law 13-57. From its humble beginnings operating out of a small Quonset hut to the modern, state-of-the-art 770,000 square foot international airport facility you see today, the Authority has been providing a superior and reliable level of airport services for the traveling public and has been a key economic driver for commerce and connectivity in the region, moving passengers safely, efficiently and effectively. These key success factors has enabled the Authority to maintain investor and stakeholder confidence that has fueled the expansion for close to \$1 billion in improvements for the expansion of the air terminal, airfield enhancements and upgrades, and various projects in varying stages of design, completion or will soon commence.

The 3<sup>rd</sup> Floor Concourse Isolation project was one of the most anticipated projects to get underway in FY 2016. The construction of this project will be a permanent solution to the TSA mandate to separate arriving and departing passengers, and finally eliminate the temporary partitions that run through the existing concourse, restoring its former aesthetically pleasing environment. In addition, it will alleviate congestion, improve passenger facilitation and enhance the services the Authority can offer and capture additional revenue. The project was put out to bid in FY 2016 and subsequently awarded in December 2016 to Black Construction for approximately \$96.9 million. Construction should commence on or about March 2017 with a completion date of September 2019.

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

**C. Authority Activities and Highlights, continued**

Substantial completion of the Hold Bag Screening Relocation project which would effectively relocate the TSA screening pods behind the ticket counters, facilitate more efficient and enhanced passenger processing in the airline check-in areas while tripling capacity in this area, regain the ticket counters that were taken off-line, and restore the departure lobby aesthetics was accomplished in FY 2016. Phase I (west ticket counter lobby) of this project came on-line in December 2016. Phase II (United Ticket counters/east ticket counter lobby) is underway with full commissioning of the system expected to be completed by March 2017.

Other capital projects focused on enhancing the passenger experience from curb to cabin include replacement and refurbishment of passenger loading bridges, relocation of the baggage carts curbside for departing passengers, and the renovation of restroom facilities throughout the terminal to include family-friendly space. In addition, improvements to the terminal facility and leasehold areas such as the former military properties, which include hangars and other areas on Tiyan that are more than 40-years old, are under renovation, demolition or other phases of construction.

In FY 2016, the Authority was awarded approximately \$6.5 million in grants from the Federal Aviation Administration (FAA) to: 1) complete the fencing and demolition of facilities located on remnant parcels of airport-controlled properties for safety and security purposes; 2) perform a Wildlife Hazard Assessment to update the Authority's Wildlife Hazard Management Plan developed in 2004 by providing information regarding behavior and abundance of wildlife and their impacts upon the airport environment and effects on aviation safety; 3) develop its Safety Management Systems (SMSs), which has become a standard for the aviation industry worldwide that integrates modern safety risk management and safety assurance concepts into repeatable, proactive systems, and emphasizes safety management as a fundamental business process to be considered in the same manner as other aspects of business management; 4) perform Seismic Upgrades to the terminal facility in conjunction with the construction of the 3<sup>rd</sup> Floor Concourse Isolation project; 5) design and construct a new state-of-the-art aircraft rescue and firefighting facility that will be fully compliant with FAA standards; and 6) design and rehabilitate the terminal aprons. Other federally funded projects the Authority undertook in FY 2016 include the acquisition of a second state-of-the-art 3,000 gallon capacity, aircraft rescue and firefighting vehicle and a rapid intervention vehicle, and acoustical testing of homes under the Authority's Residential Sound Solution program.

The Authority also embarked upon an aggressive program to facilitate passenger processing through the Customs and Border Protection Immigrations Hall. The Authority acquired and installed 8 Automated Passport Control kiosks to increase efficiency and facilitate arriving passengers' throughput by as much as 33-58%, in an effort to reduce processing times for arriving travelers and minimize misconnects for travelers transiting through the A.B. Won Pat Guam International Airport. In addition, the Authority requested and was granted approval to be included under a Reimbursable Services Agreement with USCBP to allow increases in manpower during peak periods. The Authority also increased the number of ambassadors to help facilitate processing in the arrivals hall, and invested in the development of media to assist in completing the required federal forms accurately for foreign travelers.

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, continued**

*Financial and Operational Results*

The Authority continues to exercise its fiduciary responsibility and financial prudence, while working to enhance its non-aeronautical revenue streams, in order to maintain a competitive cost structure that would entice further air service development without sacrificing a superior and reliable level of airport services. For FY 2016, the cost per enplaned passenger (CPE) for signatory airlines was calculated at \$16.30, a decrease year-over-year of 1.45% from \$16.54 in FY 2015. In addition, the Authority was able to achieve debt service coverage of 1.75 versus the 1.25 debt service requirements under the 2013 bond covenants. The Authority strives to maintain a low cost structure for airlines, implement cost containment initiatives, and enhance its revenue streams. These initiatives are key success factors to its financial performance that has resulted in an increase in net assets by 2.7% to \$320.6 million versus the \$312 million in FY 2015.

The Authority's financial performance and fiscal responsibility with respect to its management of federal funds was recognized by the Office of Public Accountability, Guam as a "Low-risk Auditee" for FY 2015, an achievement the Authority hopes to repeat for FY 2016. In addition, Moody's Investors Service released a report in January 2017 affirming its credit rating of Baa2 with stable outlook for the Airport's General Revenue Bonds issued in 2013. Moody's cited the Authority's monopolistic competitive position as the key economic driver for commerce and connectivity in the region moving passengers safely, efficiently and effectively, along with a stable operating performance over the last few years.

Operationally, the Authority was recognized by the FAA as the only airport in its region to pass its annual certification inspection which determines compliance with 14 U.S. Code of Federal Regulations (CFR) 139, the Airport's Certification Manual and the Airport Operating Certificate to obtain a perfect 100% score. The FAR 139 Annual Operational Certification is an extensive process covering 123 fields of federal compliance emphasizing safety and security. The Authority was the first airport in the Pacific Islands to receive this prestigious recognition, evidence of the Authority's strict adherence to the highest standards in the procedures and operations of the A.B. Won Pat International Airport, Guam, while focusing on an enhanced passenger experience.

In addition to the recognition of its financial and operation performance, the National Travel and Tourism Office, 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. A preliminary report published July 2016 ranked Guam 9<sup>th</sup> behind Orlando, Florida and ahead of Atlanta, Georgia. For FY 2015, Guam was ranked 10<sup>th</sup> behind Atlanta, Georgia and ahead of Washington, D.C. in a report published by the same agency in June 2016.

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, continued**

The following airlines served the Authority with scheduled passenger service for FY 2016: United Airlines, Delta Airlines, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Jin Air, Eva Air, Jeju Airlines, Air Busan, T'way Air, Cebu Pacific, Hong Kong Express, 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 Air and Arctic Air also provide services to the CNMI from Guam utilizing aircraft weighing 12,500 pounds or lower on a scheduled and charter basis for passenger/cargo services.

**D. Financial Operation Highlights**

FY 2016 saw a decrease in the Authority's total assets and deferred outflows of resources by 0.57% from \$620 million in FY 2015 to \$616.4 million in FY 2016. This is mainly attributed to the decrease in receivables from the US Government from \$11.2 million in FY 2015 to \$5.3 million in FY 2016. FY 2016 saw an increase in the Authority's net position up 2.7% from \$312.1 million in FY 2015 to \$320.6 million year-over-year.

Total liabilities for the same period above decreased 3.3% to \$295.1 million versus the \$305.1 million incurred in FY 2015. The decrease is due in part to the implementation of GASB No. 68 for the accounting and financial reporting for pensions that required the Authority to record deferred inflow of resources of \$2.3 million recorded for the prior year versus the \$379.7 thousand recorded for FY 2016.

Total revenues for the Authority were down 2.8% percent from \$90 million in FY 2015 to \$87.8 million in FY 2016. This variance was attributed mainly to decrease in Grants from the United States Government which equaled to only \$14.6 million current year versus the \$19.2 million received the prior year. Operational revenues were up 2.3% from \$65.6 million to \$64.2 million for the same time frame and represent 73.6% of total revenues. Non-operating revenues which are comprised of interest income, non-recurring income, passenger facility charges, grants from the United States Government, and transfers from the Government of Guam accounted for 25.7% of revenues, equating to \$22.6 million.

Expenses for FY 2016 amounted to approximately \$79.2 million reflect an increase of 2.6% from \$77.2 million in FY 2015. Operating expenses which comprise 49.2% of total expenses reflected a decrease of 2.3% year-over-year to \$38.9 million versus \$39.8 million for FY 2015. Depreciation and amortization accounted for 35.1% of expenses and reflects an increase of 14.9% to \$27.8 million from \$24.2 million for the same time period. Non-operating expenses decreased by 4.9% year-over-year, consist of interest expense, bond issuance costs and other expenses, and accounted for 15.7% of total expenses that amounted to \$12.5 million in FY 2016 versus \$13.1 million in FY 2015.

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

Management's Discussion and Analysis, continued

**D. Financial Operation Highlights, continued**

***Financial Position Summary***

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

<u>Assets</u>	<u>2016</u>	<u>2015*</u>	<u>2014</u>	2016 % Increase (Decrease) from 2015
Current assets:				
Unrestricted	\$ 15,190,235	\$ 20,635,990	\$ 12,381,284	-26.39%
Restricted	2,439,569	2,257,528	2,517,313	8.06%
Non-current assets:				
Unrestricted	53,827,597	35,247,014	33,124,474	52.72%
Restricted	112,769,578	127,262,590	140,096,676	-11.39%
Capital assets	415,799,756	416,608,609	410,140,238	-0.19%
Avigation easements	11,673,888	12,950,068	9,956,947	-9.85%
Accounts receivable - trade	896,400	1,026,000	1,155,600	-12.63%
Deferred outflows of resources	3,829,352	3,971,470	---	-3.58%
	<hr/>	<hr/>	<hr/>	
Total assets and deferred outflows of resources	\$ 616,426,375	\$ 619,959,269	\$ 609,372,532	-0.57%
	<hr/>	<hr/>	<hr/>	
<u>Liabilities</u>				
Current liabilities:				
Payable from unrestricted assets	\$ 14,550,122	\$ 15,022,018	\$ 10,180,792	-3.14%
Payable from restricted assets	20,418,491	19,569,217	19,353,141	4.34%
Long-term liabilities	260,139,985	270,587,306	251,650,446	-3.86%
	<hr/>	<hr/>	<hr/>	
Total liabilities	295,108,598	305,178,541	281,184,379	-3.30%
	<hr/>	<hr/>	<hr/>	
Deferred inflows of resources:				
Differences on refunding of 2013 bonds	312,187	395,189	486,540	-21.00%
Pension	379,783	2,326,760	---	-83.68%
	<hr/>	<hr/>	<hr/>	
Total deferred inflows of resources	691,970	2,721,949	486,540	-74.58%
	<hr/>	<hr/>	<hr/>	
<u>Net position</u>				
Net investment in capital assets	188,460,420	178,815,807	158,283,481	5.39%
Restricted	106,277,328	120,561,040	133,105,109	-11.85%
Unrestricted	25,888,059	12,681,932	36,313,023	104.13%
	<hr/>	<hr/>	<hr/>	

\* Includes effects of GASB No. 68 implementation.

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

Management's Discussion and Analysis, continued

**D. Financial Operation Highlights, continued**

***Operational Revenues***

Operational revenues for FY 2016 amounted to \$65.6 million and consist of facilities and use charges, concession fees, rental income, and miscellaneous revenues. The 2.27% increase year-over-year may be attributed to the increase in passenger activity for FY 2016 with a 3% increase in facilities and use charges.

Aeronautical revenue amounted to approximately \$30.1 million and accounted for 46.2% of operational revenues and 34.3% of total revenues. This increase in aeronautical revenues could be attributed to 17.8% increase in passenger loading bridge revenues of \$6.8 million in FY 2016 versus \$5.8 million in FY 2015 as Gate 21's passenger loading bridge came on-line in February 2016. Additionally, there was a 20.5% increase in airline operating space revenues, up to \$3.0 million in FY 2016 versus \$2.5 million the prior year.

Non-aeronautical revenue, which includes revenue from concession fees, lease of operating space from non-airline and other tenants, as well rental income from other sources, amounted to \$35.1 million and accounted for more than 53.8% of total operational revenues and 40% of total revenues. This was the 3<sup>rd</sup> consecutive year non-aeronautical revenue streams accounted for more than 50% of the Authority's operating revenue. Concession revenue was up slightly by .9% from \$24 million in FY 2015 to approximately \$24.2 million in FY 2016. Lotte Duty Free's Minimum Annual Guarantee (MAG) of \$15.2 million contributed to 62.8% of concession fees and 23.3% of the total operating revenue generated by the Authority.

Food and beverage concessions generated \$1.0 million in FY 2016 for the first time in the Authority's history. This reflects a 9.9% increase in revenues year-over-year versus the \$977 thousand in FY 2015. The average spend per enplaned passenger for general merchandise and F&B was down 4.2% to \$9.18 versus \$9.58 for the same time period. Car rental activity experienced double digit growth year-over-year, up 12.5% to \$1.2 million in FY 2016 versus \$1.1 million the prior year. Ground transportation remained relatively flat for FY 2016 but still contributed \$4.6 million, accounting for 19.2% of concession revenues and approximately 7.1% of total operational revenues for the Authority.

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 in FY 2016 contributed \$22.2 million and accounted for 25.7% of total revenues. This reflects a decrease of 15.21% year-over-year from FY 2015's revenues of \$26.2 million. The decrease was attributed to the completion of several federally funded projects the prior year such as the extension and rehabilitation of Runway 6L/24R and installation of a new instrument landing system. Grants from the US Government amounted to \$14.6 million, 24.2% less year-over-year than the \$19.2 million received in FY 2015. Passenger facility charges were up 6.9% to \$7.0 million in FY 2016 versus \$6.6 million accumulated in FY 2015.

***Operational Expenses***

Operational expenses for the Authority decreased by 2.3% year-over-year, equaling \$38.9 million for FY 2016 versus \$39.8 million for FY 2015. This may be attributed to the decrease of contractual services of 7.4% to \$19.5 million from \$21.1 million the prior year as architectural and engineering services shifted to smaller planning and design projects as opposed to full design for major capital improvement projects that have been placed on hold due to the 3<sup>rd</sup> Floor Concourse Isolation project. Personnel services decreased by 1.3% from \$17.6 million to \$17.4 million due in part by the adjustments made to the retirement contributions of the Authority for the same period. Depreciation and amortization expenses grew 14.9% to \$27.8 million versus the \$24.2 million recorded in FY 2015.

***Non-Operating Expenses***

Non-operating expenses for FY 2016 decreased by 4.9% as the Authority continues to pay down its Long-term liabilities resulting in a decrease in interest and other expenses that amounted to approximately \$12.5 million versus \$13.1 million incurred for FY 2014.

***Airline Signatory Rates & Charges***

The Authority is currently on a one-year extension of its airport operating and lease agreement with signatory airlines to provide those airlines with the nonexclusive right to use airport facilities, equipment improvements and services, in addition to occupying certain exclusive use premises and facilities. Moreover, in exchange for more favorable rates, the signatory airlines are guarantors of the Authority's financial position. The leases, which became effective October 1, 2006 (with an extension of five years) expired on September 30, 2016. The Authority is currently pursuing re-negotiations with the signatory airlines for a new agreement to be effective October 1, 2017. Signatory airlines comprised 99.4% of passenger activity for the Authority. They include the following carriers: United Airlines, Delta Airlines, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Jin Air, Eva Air, Jeju Airlines, Air Busan, T'way Air, Cebu Pacific, and Aerospace Concepts.

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

Management's Discussion and Analysis, continued

**D. Financial Operation Highlights, continued**

**Revenues**

A summary of revenues for the years ended September 30, 2016, 2015 and 2014 and the amount and percentage of change in relation to prior year is as follows:

Receipts from grants from the United States Government amounted to \$14.6 million for FY 2016. The majority of monies were used to make airfield improvements and fund the Hold Bag Screening Relocation project.

<u>Operating revenues</u>	<u>2016</u>	<u>2016</u> <u>% of total</u>	<u>2015*</u>	<u>2015</u> <u>% of total</u>	<u>2014</u>	<u>2014</u> <u>% of total</u>	<u>2016</u> <u>% Increase</u> <u>(Decrease)</u> <u>from 2015</u>
Facilities and systems usage charges:							
Passenger loading bridge	\$ 6,859,198	7.81%	\$ 5,821,495	6.44%	\$ 5,799,828	6.78%	17.83%
Arrivals facilities	6,702,991	7.63%	6,169,615	6.83%	6,148,322	7.19%	8.65%
Departure facilities	6,400,921	7.29%	5,890,505	6.52%	5,887,352	6.88%	8.67%
Landing	2,725,891	3.10%	2,682,133	2.97%	2,763,526	3.23%	1.63%
Immigration	2,609,946	2.97%	2,359,688	2.61%	2,292,927	2.68%	10.61%
Public apron	1,041,373	1.19%	2,624,653	2.91%	1,725,965	2.02%	-60.32%
Utility recovery charge and other fees	480,822	0.55%	490,436	0.54%	550,085	0.64%	-1.96%
Fuel flowage	193,372	0.22%	193,834	0.21%	203,172	0.24%	-0.24%
Total facilities and systems usage charges	<u>27,014,514</u>	30.76%	<u>26,232,359</u>	29.04%	<u>25,371,177</u>	29.67%	2.98%
Concession fees:							
General merchandise	\$ 15,218,825	17.33%	\$ 15,248,782	16.88%	\$ 14,729,734	17.22%	-0.20%
Ground transportation	4,658,395	5.30%	4,658,780	5.16%	4,695,730	5.49%	-0.01%
Car rental	1,273,662	1.45%	1,132,445	1.25%	986,970	1.15%	12.47%
Food and beverage	1,074,657	1.22%	977,418	1.08%	936,410	1.10%	9.95%
In-flight catering	893,235	1.02%	854,722	0.95%	862,540	1.01%	4.51%
Other	1,108,037	1.26%	1,128,276	1.25%	1,117,043	1.31%	-1.79%
Total concession fees	<u>24,226,811</u>	27.59%	<u>24,000,423</u>	26.57%	<u>23,328,427</u>	27.28%	0.94%
Rental income:							
Operating space - non-airline	\$ 4,335,216	4.94%	\$ 4,303,443	4.76%	\$ 3,902,492	4.56%	0.74%
Operating space - airline	3,097,436	3.53%	3,039,164	3.36%	3,189,198	3.73%	1.92%
Other	3,591,239	4.09%	3,636,982	4.03%	3,668,534	4.29%	-1.26%
Total rental income	<u>11,023,891</u>	12.55%	<u>10,979,589</u>	12.15%	<u>10,760,224</u>	12.58%	0.40%
Grants from the U.S Government	390,277	0.44%	478,808	0.53%	879,966	1.03%	-18.49%
Grant from the Government of Guam (OHS)	24,218	0.03%	14,914	0.02%	5,690	0.01%	62.38%
Miscellaneous	2,952,068	3.36%	2,471,955	2.74%	2,576,611	3.01%	19.42%
Total operating revenues	<u>65,631,779</u>	74.74%	<u>64,178,048</u>	71.04%	<u>62,922,095</u>	73.58%	2.27%
<u>Non-operating revenues</u>							
Passenger facility charge	7,058,805	8.04%	6,606,155	7.31%	6,439,843	7.53%	6.85%
Interest income	906,469	1.03%	767,412	0.85%	637,391	0.75%	18.12%
Capital grants from the U.S. Government	14,217,549	16.19%	18,789,856	20.80%	11,755,448	13.75%	-24.33%
Non-recurring income	---	---	---	---	3,760,000	4.40%	---
Total non-operating revenues	<u>22,182,823</u>	25.26%	<u>26,163,423</u>	28.96%	<u>22,592,682</u>	26.42%	-15.21%
Total revenues	<u>\$ 87,814,602</u>	100.00%	<u>\$ 90,341,471</u>	100.00%	<u>\$ 85,514,777</u>	100.00%	-2.80%

\* Includes effects of GASB No. 68 implementation.

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, 2016, 2015 and 2014 and the amount and percentage of change in relation to prior year is as follows:

<u>Expenses</u>	2016		2015		2014		2016 % Increase (Decrease) from 2015
	2016	% of total	2015*	% of total	2014	% of total	
Contractual services	\$ 19,497,617	24.60%	\$ 21,060,116	27.27%	\$ 20,280,467	27.40%	-7.42%
Personnel services	17,451,597	22.02%	17,674,307	22.89%	17,023,705	23.00%	-1.26%
Materials and supplies	1,405,940	1.77%	992,642	1.29%	1,132,555	1.53%	41.64%
Bad debt expense	<u>552,772</u>	0.70%	<u>116,918</u>	0.15%	<u>161,974</u>	0.22%	372.79%
Total operating expenses	<u>38,907,926</u>	49.10%	<u>39,843,983</u>	51.60%	<u>38,598,701</u>	52.15%	-2.35%
Depreciation and amortization	<u>27,848,304</u>	35.14%	<u>24,233,980</u>	31.38%	<u>21,915,920</u>	29.61%	14.91%
Non-operating:							
Interest expense	12,394,123	15.64%	12,806,782	16.59%	13,248,425	17.90%	-3.22%
Bond issuance cost	---	---	---	---	54,645	0.07%	---
Other expense	<u>97,221</u>	0.12%	<u>332,285</u>	0.43%	<u>197,463</u>	0.27%	-70.74%
Total non-operating expenses	<u>12,491,344</u>	15.76%	<u>13,139,067</u>	17.02%	<u>13,500,533</u>	18.24%	-4.93%
Total expenses	<u>\$ 79,247,574</u>	100.00%	<u>\$ 77,217,030</u>	100.00%	<u>\$ 74,015,154</u>	100.00%	2.63%
Total full time employees	207		208		210		

\* Includes effects of GASB No. 68 implementation.

***Change in net position***

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

\* Includes effects of GASB No. 68 implementation.

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, 2016, 2015 and 2014 and the amount and percentage of change in relation to prior year is as follows:

<u>Airport Revenues</u>	2016		2015		2014	
	<u>2016</u>	<u>% of total</u>	<u>2015</u>	<u>% of total</u>	<u>2014</u>	<u>% of total</u>
Signatory airline rentals and fees	\$ 28,752,086	39.29%	\$ 27,839,986	39.18%	\$ 26,955,107	38.52%
Revenue from sources other than signatory airline rentals and fees	36,981,390	50.53%	36,132,944	50.85%	35,705,042	51.02%
Passenger facility charge income	7,058,805	9.65%	6,606,155	9.30%	6,439,843	9.20%
Operating grants from the U.S. Government	<u>390,277</u>	0.53%	<u>478,808</u>	0.67%	<u>879,965</u>	1.26%
 Airport revenues	 <u>\$ 73,182,558</u>	 100.00%	 <u>\$ 71,057,893</u>	 100.00%	 <u>\$ 69,979,957</u>	 100.00%
	<u>2016</u>	<u>% Change</u>	<u>2015</u>	<u>% Change</u>	<u>2014</u>	<u>% Change</u>
Signatory airline enplaned passengers	1,764,191	4.81%	1,683,262	0.58%	1,673,521	-1.21%
Signatory airline cost per enplaned passenger	\$ 16.30	-1.45%	\$ 16.54	2.67%	\$ 16.11	-6.55%

***Debt Service Coverage***

Under the Bond Indenture for the issuance of the 2013 General Revenue Bonds, the Authority is required to maintain minimum debt service coverage of 1.25 in relation to net revenues versus annual debt service. A summary of the annual debt service coverage for the years ended September 30, 2016, 2015 and 2014 is as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 % Increase (Decrease) from 2015</u>
Airport revenues	\$ 73,182,558	\$ 71,057,893	\$ 69,979,957	2.99%
Less: operation and maintenance expenses	<u>37,282,220</u>	<u>39,894,688</u>	<u>39,116,220</u>	-6.55%
Net revenues	35,900,338	31,163,205	30,863,737	15.20%
Plus: other available monies	<u>5,968,625</u>	<u>5,967,025</u>	<u>6,066,606</u>	0.03%
Net revenues and other available monies	<u>\$ 41,868,963</u>	<u>\$ 37,130,230</u>	<u>\$ 36,930,343</u>	12.76%
 <u>Rate covenant</u>				
Net revenues and other available monies	\$ 41,868,963	\$ 37,130,230	\$ 36,930,343	12.76%
Total annual debt service	\$ 23,874,500	\$ 23,868,100	\$ 24,266,424	0.03%
Annual debt service coverage	1.75	1.56	1.52	12.73%
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 2017**

FY 2017 is the year of transformation for the Authority! The aviation industry is in a constant state of flux and the Authority is adept at making changes to meet the challenges of our industry. From the physical transformation of our facilities, to new markets and to changes in our internal processes, the Authority is committed to aim high, work hard and set the new gold standard for aviation in our region!

**Capital Improvements**

The Hold Bag Screening Relocation project is scheduled to be completed by the end of March 2017 with the installation of four (4) new baggage screening pods that will increase the efficiency and effectiveness of the baggage handling and screening system once it is fully operational and commissioned into service. The relocation of the TSA baggage screening pods behind the ticket counters will not only facilitate a more efficient and enhanced passenger processing in the airline check-in areas, it would allow the Authority 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.

The long awaited 3<sup>rd</sup> Floor Concourse Isolation project will commence as well. The construction of this project is estimated to begin 2<sup>nd</sup> quarter of FY 2017. The bid has been awarded and the Authority is finalizing the contract that 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 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. In addition, it will increase the Authority's pavements' useful life by repairing spalling of joints, cracks, rutting and other deficiencies on pavement that is over 20 years old.

The Authority will proceed with 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 design 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 would allow 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.

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

**F. Outlook for FY 2017, continued**

In addition to the above, delivery of the second state-of-the-art 3,000 gallon capacity, aircraft rescue and firefighting vehicle and a rapid intervention vehicle will be completed, along with the acoustical testing for residences under the Authority's Residential Sound Solution program. The wildlife management assessment and mitigation program will be complete and the development of a Safety Management Systems (SMSs) and training will be undertaken to integrate modern safety risk management and safety assurance concepts into repeatable, proactive systems for the Authority.

Other capital projects focused on enhancing the passenger experience from curbside to cabin include 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. Construction of a single-level parking deck over the Authority's commercial vehicle area is still in the planning phases. This would be necessary to replace capacity lost from the improvements proposed for Route 10a and to enhance other ground transportation activities. Additionally, 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. Other improvements to the Authority's leasehold areas and terminal facilities will continue.

**Air Service Development**

The Authority will continue to aggressively seek out airline partners and open new routes to their origin markets. According to a report by the International Air Transport Association published December 2016, the industry is expected to generate a net profit of \$29.8 billion. While higher oil prices and industry capacity expansion may have a negative impact on airline load factors, yields are expected to increase with the strengthening of global economic growth and the structural changes within the industry. IATA expects to move four (4) billion travelers and over 55.7 million tons of cargo in 2017 making the world more accessible than ever before. Visa barriers continue to have an impact globally but as progressive liberalization continues competition is expected to intensify. The Asia-Pacific region is expected to grow 7.6% year-over-year.

This bodes well for the Authority as passenger projections are expected to grow by 2% to over 1.8 million enplanements for FY 2017. Strong growth from the Korean market is expected to continue. China carriers among many of the other Asian airlines are looking for opportunities to increase their aircraft utilization. Guam would be a perfect opportunity for them, particularly from secondary cities such as Chengdu, Dalian, and Zhengzhou. Low Cost Carriers (LCCs) in key markets such as Japan may offset the decrease in visitors from this major origin/destination market. LCCs such as JetStar, Air Asia and SkyMark have expressed interest in opening up routes from Japan to Guam. Tiger Air Taiwan is pushing plans to begin additional service to Guam from Taipei. Connectivity behind origin points is also a possibility using 5<sup>th</sup> and 6<sup>th</sup> Freedom rights.

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

**F. Outlook for FY 2017, continued**

**Financial Results**

Notwithstanding any volatility in the market, the Authority will continue to practice financial prudence, sustain enplanement growth from non-traditional markets, and enhance its non-aeronautical revenue streams that would lead to lower airline costs and greater passenger diversity. The Authority projects a 6.1% increase of its CPE for FY 2017 to \$17.30 to off-set some of the financial impacts due to operational constraints during the 3<sup>rd</sup> Floor Concourse construction project. The Authority is projecting to achieve a DSC of 1.43 which is greater than the 1.25 requirement covered under the 2013 Bond Covenants. Moreover, the Authority will seek an investment grade upgrade to its 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.

The Authority is committed to remaining at the forefront of the aviation industry in the region and will continue to plan strategically, implementing initiatives that are focused on enhancing the passenger experience at the A.B. Won Pat International Airport, while maintaining a superior level of airport services, safely, efficiently and effectively, and setting the Gold standard for aviation in FY 2017!

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

	September 30,	
	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current assets:		
Unrestricted assets:		
Cash ( <i>Note 3</i> )	\$ 2,141,020	\$ 994,826
Passenger facility charge cash ( <i>Note 3</i> )	60,293	337,087
Accounts receivable, trade, net of allowance for doubtful for doubtful accounts of \$2,633,614 at September 30, 2016 (\$2,080,843 at September 30, 2015) ( <i>Note 3</i> )	6,163,119	6,921,726
Accounts receivable from tenant ( <i>Notes 3 and 9</i> )	129,600	129,600
Passenger facility charge receivables ( <i>Note 3</i> )	811,636	637,994
Note receivable from tenant	---	292,110
Receivables from the United States Government	5,340,503	11,247,304
Inventory and other	<u>360,484</u>	<u>75,343</u>
Total unrestricted current assets	<u>15,006,655</u>	<u>20,635,990</u>
Restricted assets:		
Customs fees, cash ( <i>Note 3</i> )	176,215	175,185
Customs fees, receivables ( <i>Note 12</i> )	<u>2,263,354</u>	<u>2,082,343</u>
Total restricted current assets	<u>2,439,569</u>	<u>2,257,528</u>
Total current assets	<u>17,446,224</u>	<u>22,893,518</u>
Accounts receivable from tenant, unrestricted ( <i>Notes 3 and 9</i> )	<u>896,400</u>	<u>1,026,000</u>
General Revenue Bonds ( <i>Note 7</i> ):		
Investments and cash with trustees, unrestricted	53,827,597	35,247,014
Investments and cash with trustees, restricted	<u>112,769,578</u>	<u>127,262,590</u>
	<u>166,597,175</u>	<u>162,509,604</u>
Depreciable capital assets, net ( <i>Notes 4 and 11</i> )	295,564,692	299,051,912
Non-depreciable capital assets ( <i>Notes 4 and 11</i> )	120,235,064	117,556,697
Notes receivable from tenant	183,580	---
Avigation easements ( <i>Note 4</i> )	11,673,888	12,950,068
<b>Deferred outflows of resources - pension (<i>Note 8</i>)</b>	<u>3,829,352</u>	<u>3,971,470</u>
Total assets and deferred outflows of resources	<u>616,426,375</u>	<u>619,959,269</u>

*See accompanying notes.*

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

	September 30,	
	<u>2016</u>	<u>2015</u>
<b>Liabilities</b>		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	\$ 2,481,588	\$ 2,634,063
Accounts payable - construction	5,699,097	6,048,180
Other liabilities (Note 11)	3,585,477	3,737,035
Security deposits	1,319,791	1,217,307
Current portion of annual leave (Note 10)	407,361	387,433
Current portion of long-term loan payable to bank (Notes 6 and 10)	<u>1,056,808</u>	<u>998,000</u>
Total payable from unrestricted assets	<u>14,550,122</u>	<u>15,022,018</u>
Payable from restricted assets:		
Customs fees payable to Treasurer of Guam (Note 12)	3,036,241	2,402,667
General Revenue Bonds:		
Current installments (Notes 5 and 10)	10,890,000	10,465,000
Accrued interest	<u>6,492,250</u>	<u>6,701,550</u>
Total payable from restricted assets	<u>20,418,491</u>	<u>19,569,217</u>
Total current liabilities	<u>34,968,613</u>	<u>34,591,235</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued sick leave (Notes 8 and 10)	325,104	325,104
Long-term portion of annual leave (Note 10)	819,217	807,040
Long-term loan payable to bank (Notes 6 and 10)	8,304,232	9,360,932
Net pension liability (Notes 8 and 10)	32,241,435	30,570,481
Payable from restricted assets:		
Long-term bonds payable, less current installments:		
General Revenue Bonds (Notes 5 and 10)	<u>218,449,997</u>	<u>229,523,749</u>
Total non-current liabilities	<u>260,139,985</u>	<u>270,587,306</u>
Total liabilities	<u>295,108,598</u>	<u>305,178,541</u>
<b>Deferred inflows of resources:</b>		
Deferred differences on refunding of 2013 bonds (Note 5)	312,187	395,189
Pension (Note 8)	<u>379,783</u>	<u>2,326,760</u>
Total deferred inflows of resources	<u>691,970</u>	<u>2,721,949</u>
Commitments and contingencies (Notes 5, 6, 9 and 11)		
<b>Net position:</b>		
Net investment in capital assets	188,460,420	178,815,807
Restricted for:		
Capital projects (Notes 4 and 11)	76,017,225	90,853,668
Debt service (Notes 5 and 7)	30,260,103	29,707,372
Unrestricted	<u>25,888,059</u>	<u>12,681,932</u>
Total net position	<u>\$ 320,625,807</u>	<u>\$ 312,058,779</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam  
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Statements of Revenues, Expenses and Changes in Net Position

	September 30,	
	<u>2016</u>	<u>2015</u>
Revenues (Note 5):		
Facilities and systems usage charges (Note 3)	\$ 27,014,514	\$ 26,232,359
Concession fees (Notes 3 and 9)	24,226,811	24,000,423
Rental income (Note 9)	11,023,891	10,979,589
Miscellaneous	2,952,068	2,471,955
	<u>65,217,284</u>	<u>63,684,326</u>
Provision for bad debts	( 552,772 )	( 116,918 )
	<u>64,664,512</u>	<u>63,567,408</u>
Operating costs and expenses:		
Contractual services (Notes 9 and 11)	19,497,617	21,060,116
Personnel services	17,451,597	17,674,307
Materials and supplies	1,405,940	992,642
	<u>38,355,154</u>	<u>39,727,065</u>
Total operating costs and expenses	<u>38,355,154</u>	<u>39,727,065</u>
Income from operations before depreciation and amortization	26,309,358	23,840,343
Depreciation and amortization	( 27,848,304 )	( 24,233,980 )
Operating loss	( 1,538,946 )	( 393,637 )
Non-operating revenues (expenses):		
Passenger facility charge income	7,058,805	6,606,155
Interest income	906,469	767,412
Grants from the United States Government	390,277	478,808
Grant from Government of Guam - Office of Highway Safety (OHS)	24,218	14,914
Interest expense	( 12,394,123 )	( 12,806,782 )
Other expenses, net	( 97,221 )	( 308,915 )
Non-recurring expenses	( --- )	( 23,370 )
	<u>( 4,111,575 )</u>	<u>( 5,271,778 )</u>
Total non-operating expenses, net	<u>( 4,111,575 )</u>	<u>( 5,271,778 )</u>
Loss before capital grants	<u>( 5,650,521 )</u>	<u>( 5,665,415 )</u>
Capital grants from the United States Government	<u>14,217,549</u>	<u>18,789,856</u>
Increase in net position	8,567,028	13,124,441
Net position at beginning of year	<u>312,058,779</u>	<u>298,934,338</u>
Net position at end of year	<u>\$ 320,625,807</u>	<u>\$ 312,058,779</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>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 65,474,192	\$ 63,691,284
Cash paid to suppliers for goods and services	( 21,305,461 )	( 17,670,720 )
Cash paid to employees	( 17,553,397 )	( 17,492,289 )
Other operating cash receipts	<u>24,218</u>	<u>250,167</u>
Net cash provided by operating activities	<u>26,639,552</u>	<u>28,778,442</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	( 4,087,571 )	10,711,546
Notes receivable	108,530	( 292,110 )
Investment interest income	<u>906,469</u>	<u>767,412</u>
Net cash (used in) provided by investing activities	<u>( 3,072,572 )</u>	<u>11,186,848</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of airport facilities and navigation easement	( 24,603,282 )	( 33,695,472 )
Principal payment on 2013 General Revenue Bonds	( 10,731,754 )	( 10,128,573 )
Interest paid on 2013 General Revenue Bonds	( 13,193,800 )	( 12,329,214 )
Principal payment on loan payable to bank	( 997,892 )	( 942,261 )
Interest paid on loan payable to bank	( 569,612 )	( 625,243 )
Passenger facility charge receipts	6,885,163	6,220,863
U.S. Government capital grants	<u>20,514,627</u>	<u>9,962,040</u>
Net cash used in capital and related financing activities	<u>( 22,696,550 )</u>	<u>( 41,537,860 )</u>
Net increase (decrease) in cash	870,430	( 1,572,570 )
Cash at beginning of year	<u>1,507,098</u>	<u>3,079,668</u>
Cash at end of year	<u>\$ 2,377,528</u>	<u>\$ 1,507,098</u>
<b>Consisting of:</b>		
Unrestricted	\$ 2,201,313	\$ 1,331,913
Restricted - current	<u>176,215</u>	<u>175,185</u>
	<u>\$ 2,377,528</u>	<u>\$ 1,507,098</u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam  
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Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2016</u>	<u>2015</u>
<b>Reconciliation of operating loss and other expenses to net cash provided by operating activities:</b>		
Operating loss	\$( 1,538,946 )	\$( 393,637 )
Other and non-recurring expenses	( <u>73,003</u> )	( <u>82,118</u> )
	( <u>1,611,949</u> )	( <u>475,755</u> )
Adjustments to reconcile operating loss and other expenses to net cash provided by operating activities:		
Depreciation and amortization	27,848,304	24,233,980
Provision for bad debts	552,772	116,918
Non-cash pension costs	2,917,840	3,335,924
(Increase) decrease in assets:		
Accounts receivable	24,824	( 107,389 )
Inventory and other	( 285,141 )	171,753
Accounts receivable from tenant	129,600	129,600
Increase (decrease) in liabilities:		
Accounts payable	132,016	2,915,088
Other current liabilities	1,519,396	( 1,436,072 )
Security deposits and deferred income	102,484	( 15,253 )
Annual leave	32,105	23,522
Net pension liability	( <u>4,722,699</u> )	( <u>113,874</u> )
Total adjustments	<u>28,251,501</u>	<u>29,254,197</u>
Net cash provided by operating activities	\$ <u>26,639,552</u>	\$ <u>28,778,442</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, 2016 and 2015

**1. Organization and Summary of Accounting Policies**

**Organization**

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

**Basis of Accounting**

The Authority utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Net Position**

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

*Net investment in capital assets*

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

*Restricted*

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

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

All of the Authority's restricted net position at September 30, 2016 and 2015 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 issues. Bonds payable are reported net of bond premium and discount.

**Pensions**

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Authority recognizes a net pension liability for the pension plan in which it participates, which represents the Authority's proportionate share of total pension liability (actuarially calculated) over the pension plan assets, measured as of the fiscal year end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows 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 and 71, the Authority reports deferred outflows of resources for pension-related amounts: payments since the measurement date, changes in assumptions, and for difference between projected and actual earnings.

In addition to liabilities, the statement of 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, 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**

As of October 1, 2015, the Authority implemented the following GASB pronouncements:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement establishes accounting and financial reporting standards for fair value measurements, the level of fair value hierarchy, and valuation techniques.

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

**Upcoming 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 requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. GASB Statement No. 73 will become effective for the Authority for fiscal year ending September 30, 2017.

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

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

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

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

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

**1. Organization and Summary of Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

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

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.

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. GASB Statement No. 83 will be effective for the Authority for fiscal year ending September 30, 2019.

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 January 30, 2017, which is also the date the financial statements were available to be issued.

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

**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, 2016 and 2015, \$250,000 of the Authority's deposits in each bank is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

A primary concessionaire accounted for 21% and 22% of total operating revenues for the years ended September 30, 2016 and 2015, respectively. Receivables from the primary concessionaire totaled \$413,960 and \$409,119 at September 30, 2016 and 2015, respectively.

For the years ended September 30, 2016 and 2015, approximately 22% and 26%, respectively, of the Authority's total operating revenues, including passenger facility charge income, were derived from one airline customer. At September 30, 2016 and 2015, the receivable from this airline customer totaled \$1,955,524 and \$3,282,077, respectively.

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

**4. Airport Facilities**

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

	Beginning Balance October 1, <u>2015</u>	<u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2016</u>
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	<u>60,095,324</u>	<u>25,364,582</u>	<u>(22,686,215)</u>	<u>62,773,691</u>
	<u>\$117,556,697</u>	<u>\$ 25,364,582</u>	<u>\$(22,686,215)</u>	<u>\$120,235,064</u>

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

**4. Airport Facilities, continued**

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

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

The Authority acquired avigation easements from surrounding residential homeowners in exchange for the cost of installing residential sound insulation. Construction-in-progress at September 30, 2016 and 2015 included \$3,821 and \$4,002,469, respectively, of costs associated with the residential sound insulation program. At September 30, 2016 and 2015, the Authority's avigation easements (net of amortization) amounted to \$11,673,888 and \$12,950,068, 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, 2016 and 2015 totaled \$1,159,988 and \$1,221,561, respectively.

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

**4. Airport Facilities, continued**

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

In September 2000, the United States Navy (Navy) transferred approximately 1,417 acres of property surrounding the Airport facilities to the Authority and the Government of Guam at no cost. This land is recorded at its appraised value of \$51,210,000 (at September 2000) and is included as a component of capital assets in the accompanying statements of net position. In fiscal year 2001, the Navy paid the Authority \$10,000,000 (see Note 11) and the Authority and the Government of Guam assumed the responsibility for the completion of certain environmental response actions on the property.

**5. Long-Term Revenue Bonds Payable**

Long-term revenue bonds payable at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</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 \$10,890,000 due in October 2016	\$227,025,000	\$237,490,000
Less current installments	( <u>10,890,000</u> )	( <u>10,465,000</u> )
	216,135,000	227,025,000
Add net unamortized premium on bonds	<u>2,314,997</u>	<u>2,498,749</u>
	<u>\$218,449,997</u>	<u>\$229,523,749</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**

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>
2017	\$ 10,890,000	\$ 12,712,250	\$ 23,602,250
2018	11,430,000	12,154,250	23,584,250
2019	12,010,000	11,568,250	23,578,250
2020	12,605,000	10,952,875	23,557,875
2021	13,230,000	10,307,000	23,537,000
2022-2026	50,700,000	41,232,769	91,932,769
2027-2031	21,005,000	32,745,263	53,750,263
2032-2036	28,190,000	25,337,938	53,527,938
2037-2041	38,010,000	15,193,700	53,203,700
2042-2044	<u>28,955,000</u>	<u>2,773,100</u>	<u>31,728,100</u>
	<u>\$227,025,000</u>	<u>\$174,977,395</u>	<u>\$402,002,395</u>

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

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

The 2013 Bonds were obtained for the following:

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

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

The 2013 Bonds bear interest at 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.

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Notes to Financial Statements, continued

**5. Long-Term Revenue Bonds Payable, continued**

The refunding resulted in a credit difference on refunding of \$3,008,461 representing the difference between the reacquisition price and carrying amount of the 2003 bonds. The Authority netted the \$2,422,781 unamortized difference from prior refunding against the \$3,008,461 difference in current refunding, and the resulting net credit of \$585,680 is to be deferred and amortized over the ten year original amortization period remaining from the 2003 bonds. As of September 30, 2016 and 2015, the unamortized balance of the difference in refunding totaled \$312,187 and \$395,189, respectively, as presented in the accompanying statement of net position.

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

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

**6. Long-Term Loan Payable to Bank**

Long-term loan payable to bank at September 30, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</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	\$ 9,361,040	\$10,358,932
Less current installments	<u>1,056,808</u>	<u>998,000</u>
	<u>\$ 8,304,232</u>	<u>\$ 9,360,932</u>

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Notes to Financial Statements, continued

**6. Long-Term Loan Payable to Bank, continued**

On June 27, 2012, the Authority entered a loan agreement with First Hawaiian Bank (FHB) to finance the Authority's energy efficient upgrades. The loan amount is for \$11.9 million. Repayments during the years ended September 30, 2016 and 2015 amounted to \$997,892 and \$942,261, 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.

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

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

<u>Year ending September 30.</u>	
2017	\$1,057,000
2018	1,119,000
2019	1,185,000
2020	1,255,000
2021	1,329,000
2022-2024	<u>3,416,040</u>
	<u>\$9,361,040</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, 2016 and 2015, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	<u>2016</u>	<u>2015</u>
Operations and Maintenance Reserve Fund	\$ 10,990,440	\$ 10,978,745
General Revenue Fund	7,538,082	6,941,840
Federal Grant Fund	6,609,232	10,358,733
Risk and Loss Management Reserve Fund	5,658,629	5,439,976
Capital Improvement Fund	19,490,998	1,526,894
Operations and Maintenance Fund	<u>3,540,216</u>	<u>826</u>
Total Unrestricted	<u>53,827,597</u>	<u>35,247,014</u>
Construction Fund	75,016,873	89,846,025
Bond Reserve Fund	19,358,184	19,227,711
Debt Service Fund	17,394,169	17,181,211
Renewal and Replacement Fund	<u>1,000,352</u>	<u>1,007,643</u>
Total Restricted	<u>112,769,578</u>	<u>127,262,590</u>
	<u>\$ 166,597,175</u>	<u>\$ 162,509,604</u>

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Notes to Financial Statements, continued

**7. Investments and Cash with Trustees, continued**

At September 30, 2016 and 2015, interest and cash held by trustees are comprised of the following:

	<u>2016</u>	<u>2015</u>
Cash	\$ 40,051,014	\$ 30,639,247
Investments	<u>126,546,161</u>	<u>131,870,357</u>
	<u>\$166,597,175</u>	<u>\$162,509,604</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, Citibank N.A. 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, 2016 and 2015.

*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, 2016			
		Level 1	Level 2	Level 3	
Investments by fair value level					
Debt securities:					
U.S. Treasury securities	\$ 8,792,599	\$ 8,792,599	\$ ---	\$ ---	
Federal National Mortgage Association (FNMA)	3,071,673	---	3,071,673	---	
Federal Home Loan Mortgage Corporation (FHLMC)	5,348,684	---	5,348,684	---	
Federal Farm Credit Banks Funding Corporation (FFCBFC)	800,192	---	800,192	---	
Corporate bonds	1,800,934	---	1,800,934	---	
Total investments by fair value level	19,814,082	\$ 8,792,599	\$ 11,021,483	\$ ---	
Investments measured at the net asset value (NAV)					
Money market funds (MMF) - Fidelity Investments	70,010,408				
MMF - US Bank, NA	17,436,749				
Investments measured at a cost based measure					
Time certificates of deposit (TCD)	9,735,728				
Guaranteed Investment Contracts (GIC) - Natixis Funding Corp. (Natixis)	9,549,194				
	\$ 126,546,161				

		At September 30, 2015			
		Level 1	Level 2	Level 3	
Investments by fair value level					
Debt securities:					
U.S. Treasury securities	\$ 6,386,588	\$ 6,386,588	\$ ---	\$ ---	
FNMA	14,095,302	---	14,095,302	---	
FHLMC	8,401,468	---	8,401,468	---	
FFCBFC	5,002,320	---	5,002,320	---	
Corporate bonds	1,698,310	---	1,698,310	---	
Total investments by fair value level	35,583,988	\$ 6,386,588	\$ 29,197,400	\$ ---	
Investments measured at NAV					
MMF - Fidelity Investments	51,773,270				
MMF - US Bank, NA	17,170,959				
MMF - Other	186,481				
Investments measured at a cost based measure					
TCD	17,606,465				
GIC - Natixis	9,549,194				
	\$ 131,870,357				

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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, 2016 and 2015 is as follows:

At September 30, 2016			At September 30, 2015		
	Standard & Poor's/Moody's Credit Rating	Amount		Standard & Poor's/Moody's Credit Rating	Amount
FHLMC	AA	\$ 5,348,684	FHLMC	AA	\$ 8,401,468
FNMA	AA	3,071,673	FNMA	AA	14,095,302
FFCBFC	AA	800,192	FFCBFC	AA	5,002,320
Corporate bonds	Aaa/AAA	66,592	MMF	Aaa/AA	51,959,751
Corporate bonds	Aa/AA	315,993	MMF	A	17,170,959
Corporate bonds	A/AA	65,295	Corporate bonds	AAA	72,419
Corporate bonds	A/A	15,751	Corporate bonds	AA	383,556
Corporate bonds	A	881,630	Corporate bonds	A/AA	64,658
Corporate bonds	Baa/BBB	434,929	Corporate bonds	A/A	21,206
Corporate bonds	BBB	10,214	Corporate bonds	A	650,452
Corporate bonds	Baa/A	10,530	Corporate bonds	Baa/BBB	206,525
MMF	Unrated	87,447,157	Corporate bonds	BBB	202,246
GIC	Unrated	9,549,194	Corporate bonds	Baa/A	10,988
			Corporate bonds	Unrated	86,260
			GIC	Unrated	9,549,194

At September 30, 2016 and 2015, the Authority had the following investments and maturities:

Investment type	At September 30, 2016				
	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>

Investment type	At September 30, 2015				
	Total	Less than 1	1 - 5	6 - 10	More than 10
MMF	\$ 69,130,710	\$ 69,130,710	\$ ---	\$ ---	\$ ---
TCD	17,606,465	16,103,266	1,503,199	---	---
FNMA	14,095,302	2,499,975	11,232,131	203,036	160,160
GIC	9,549,194	---	---	9,549,194	---
FHLMC	8,401,468	2,403,388	5,998,080	---	---
U.S. Treasury securities	6,386,588	4,678,966	1,482,674	224,948	---
FFCBFC	5,002,320	2,000,400	3,001,920	---	---
Corporate bonds	1,698,310	---	451,122	1,221,236	25,952
	<u>\$ 131,870,357</u>	<u>\$ 96,816,705</u>	<u>\$ 23,669,126</u>	<u>\$ 11,198,414</u>	<u>\$ 186,112</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.

*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](http://www.ggrf.com).

*Contributions*

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

Statutory contributions rates for employer and employee contributions were 28.16% and 9.54% and 29.85% and 9.55%, respectively, for the years ended September 30, 2016 and 2015.

The actuarial contribution rate was 28.16% and 29.85% for the years ended September 30, 2016 and 2015, respectively.

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

**8. Employee Benefits and Other, continued**

*Contributions, continued*

During the years ended September 30, 2016 and 2015, contributions made and accrued, which were equal to the required contributions for those years, amounted to \$3,060,666 and \$3,173,928, 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. Cost-of-living adjustments and other supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature.

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

At September 30, 2016 and 2015, the Authority reported a liability of \$32,241,435 and \$30,570,481, respectively, for its proportionate share of the net pension liability which was an increase of 5.47% from the prior measurement date. At September 30, 2016 and 2015, the Authority's proportion based on expected defined benefit plan contributions was 2.35% and 2.45%, respectively.

For the years ended September 30, 2016, and 2015, the Authority recognized pension expense of \$2,917,840 and \$3,335,924, respectively.

As of September 30, 2016 and 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 404,347	\$ ---	\$ 226,802	\$ ---
Net difference between projected and actual earnings on pension plan investments	364,339	---	---	2,326,760
Authority contributions subsequent to the measurement date	3,060,666	---	3,173,928	---
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	---	379,783	570,740	---
	<u>\$ 3,829,352</u>	<u>\$ 379,783</u>	<u>\$ 3,971,470</u>	<u>\$ 2,326,760</u>

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*

Deferred outflows of resources at September 30, 2016 and 2015, resulting from the Authority's employer contributions of \$3,060,666 and \$3,173,928, respectively, subsequent to the measurement date will be recognized as a decrease in net pension liability in the years ending September 30, 2017 and 2016, 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:

Year ending September 30,

2017	\$(167,064)
2018	(191,628)
2019	266,634
2020	480,961

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, 2016 and 2015 is based upon the September 30, 2014 and 2013 actuarial valuation, respectively, with a measurement date of September 30, 2015 and 2014, 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.

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

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

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Notes to Financial Statements, continued

**8. Employee Benefits and Other, continued**

*Actuarial Assumptions, continued*

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

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

*Discount Rate*

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

*Sensitivity of Net Pension Liability to Changes in the Discount Rate*

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

	1% Decrease <u>6%</u>	Current Discount Rate <u>7.0%</u>	1% Increase <u>8.0%</u>
Net pension liability	<u>\$39,175,433</u>	<u>\$32,241,435</u>	<u>\$26,276,845</u>

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

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

**8. Employee Benefits and Other, continued**

*Expected Remaining Service Lives*

Under GASB Statement No. 68, gains and losses that are deferred and amortized over future periods 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 1.4 years. The amortization period is calculated as the weighted average of expected remaining service lives assuming zero years for all inactive members.

*Expected Rate of Return and Asset Allocation*

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Nominal Return</u>	<u>Component Return</u>
U.S. Equities (large cap)	33%	7.87%	2.60%
U.S. Equities (small cap)	7%	9.04%	0.63%
Non-U.S. Equities	16%	9.04%	1.45%
Non-U.S. Equities (emerging markets)	4%	10.77%	0.43%
U.S. Fixed Income (aggregate)	27%	4.98%	1.34%
High yield bonds	5%	7.05%	0.35%
Real Estate (REITs)	8%	8.85%	0.71%
Expected average return for one year			7.51%
Expected geometric mean (40 years)			6.85%

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.

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Notes to Financial Statements, continued

**8. Employee Benefits and Other, continued**

*DCRS, continued*

Statutory employer contributions into the DCRS for the years ended September 30, 2016 and 2015 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, 2016 and 2015, contributions made and amounts accrued under the DCRS amounted to \$2,203,151 and \$1,793,328, respectively.

Retirement expense amounted to \$3,452,012 and \$3,696,877 for the years ended September 30, 2016 and 2015, 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, 2016 and 2015, the Authority has accrued an estimated liability of \$325,104. However, this amount is an estimate and actual payout could differ from those estimates.

*Other Post-Employment Benefits*

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

During the years ended September 30, 2016 and 2015, the Authority's required contributions to this Plan totaled approximately \$479,000 and \$435,000, respectively.

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Notes to Financial Statements, continued

**9. Leases**

*Lotte Duty Free Guam, LLC (Lotte)*

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

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

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

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

For the years ended September 30, 2016 and 2015, the Authority recorded rental income under the Lotte concession agreement totaling \$15,160,000 and \$15,187,753, respectively, for use of the main rental space.

Future minimum lease income under the Lotte Concession Agreements as of September 30, 2016 is as follows:

<u>Year ending</u> <u>September 30,</u>	
2017	\$ 15,400,000
2018	15,400,000
2019	15,400,000
2020	15,400,000
2021	15,400,000
2022-2023	<u>28,233,333</u>
Total future minimum lease income	<u>\$105,233,333</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*

The Authority and Pac Air Properties, LLC (Pac Air) have a lease agreement with an initial lease term of fifty (50) years beginning on February 22, 2008, with an option on the part of Pac Air to renew for an additional ten (10) years. In accordance with the agreement, Pac Air shall make agreed-upon capital improvements at a cost of no less than \$25 million to the leased premises with an area of approximately 540,000 square feet. On the termination or expiration of the lease, capital improvements will be surrendered to the Authority. The Authority shall waive rental payments during the construction phase but no later than the first two (2) years from the initial term of the lease. Beginning on the date of beneficial occupancy, which is on September 1, 2009 the date which marks the end of the construction phase and the waiver of rent, the monthly rent shall amount to \$21,600 but payment of such rent shall be deferred for the next five (5) years, at such time the deferred rent shall be paid starting on September 1, 2014 in equal monthly installments over the next ten (10) years at the same time and under the same conditions as the regular monthly rent payments. The monthly rent will escalate every five years until the end of the lease term. Starting September 1, 2014, monthly rent increased to \$23,850.

For the years ended September 30, 2016 and 2015, 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, 2016 and 2015, accrued rental receivable totaled \$1,026,000 and \$1,155,600, respectively, and is shown as accounts receivable from tenant in the accompanying statement of net position.

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

Year ending <u>September 30,</u>	
2017	\$ 286,200
2018	286,200
2019	288,450
2020	313,200
2021	313,200
2022 - 2026	1,633,500
2027 - 2031	1,795,500
2032 - 2036	1,968,750
2037 - 2041	2,169,000
2042 - 2046	2,396,250
2047 - 2051	2,639,250
2052 - 2056	2,893,500
2057 - 2059	<u>1,779,750</u>
Total future minimum lease income	<u>\$18,762,750</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*

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

Rent expense for the years ended September 30, 2016 and 2015 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:

Year ending September 30,

2017	\$1,058,400
2018	1,058,400
2019	1,058,400
2020	<u>923,400</u>
Total future minimum rent expense	<u>\$4,098,600</u>

On December 2010, the Authority entered into a sublease agreement with the Government of Guam's Customs and Quarantine Agency (GovGuam CQA) to lease 25,000 square feet of the aforementioned 32,500 square feet rental space for 5 years, with annual rental income of \$1,024,200. Effective October 1, 2015, the sublease agreement was continued for an additional 5 years with annual rental of \$780,000. Rental income for the years ended September 30, 2016 and 2015 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,

2017	\$ 780,000
2018	780,000
2019	780,000
2020	<u>780,000</u>
Total future minimum lease income	<u>\$3,120,000</u>

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

**9. Leases, continued**

*Other Leases*

The Authority has lease agreements with scheduled air carriers, various concessionaires and other airport users. The agreements provide the lessees with the use of the airport's system facilities, equipment and services. The signatory airline operating agreements and terminal building leases 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, 2016 are as follows:

Year ending September 30.

2017	\$ 1,856,000
2018	1,976,000
2019	1,995,000
2020	1,894,000
2021	1,674,000
2022 - 2026	1,397,000
2027 - 2031	1,260,000
2032 - 2036	1,369,000
2037 - 2041	<u>572,000</u>
Total future minimum lease income	<u>\$13,993,000</u>

**10. Long-Term Liabilities**

A summary of changes in long-term liabilities during fiscal years 2016 and 2015 is as follows:

	Outstanding October 1, <u>2015</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2016</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	30,570,481	1,670,954	---	32,241,435	---	32,241,435
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>\$282,437,739</u>	<u>\$2,669,402</u>	<u>\$12,612,883</u>	<u>\$272,494,258</u>	<u>\$12,354,169</u>	<u>\$260,140,089</u>

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

**10. Long-Term Liabilities, continued**

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

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

**11. Commitments and Contingencies**

*Environmental Response Actions*

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

The Authority's responsibilities under the DD are limited to sampling and testing as currently performed. The new task is for the Authority to conduct a 5 year review to ensure the remedial action is or will be protective of human health and the environment. This new task may reduce the ongoing sampling and testing requirements or completely eliminate them. Moreover, the granular activated carbon (GAC) treatment provided under the Authority's new water system satisfies the GAC treatment component of future wells meeting the selected remedy. No further obligation of the Authority is required under the DD. A portion of the remaining balance of the \$10 million received from the Navy, although reprogrammed to the Capital Improvement Fund, may remain as a contingent unencumbered sum to pay for future sampling and testing requirements.

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

**11. Commitments and Contingencies, continued**

*Environmental Response Actions, continued*

The long-term obligation to operate and maintain the facilities built under the remedial construction as well as the required sampling will be handled through a water system commercial agreement. As of September 30, 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, 2016 and 2015, future pollution remediation and monitoring costs totaling \$530,329 and \$748,497, 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.

As of September 30, 2016, there was one unresolved questioned cost.

*Commitments*

The Authority has commitments totaling approximately \$13.8 million under several construction contracts at September 30, 2016.

In addition, the Authority has commitments under other various contracts totaling approximately \$16.8 million at September 30, 2016.

*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, 2016 and 2015, the balances in the Renewal and Replacement Fund and Risk and Loss Management Reserve Fund are \$1 million and \$5 million, respectively. The Authority has a catastrophic insurance policy with coverage up to \$5 million as a supplement to the self-insurance.

*Government of Guam General Fund*

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

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

**11. Commitments and Contingencies, continued**

*Government of Guam General Fund, continued*

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, 2016 and 2015. This position has been supported by legal determinations, past and present.

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

During the year ended September 30, 2016, there was no substantive progress of discussions with the Executive and Legislative branches to repeal 5 GCA § 22421 or on the issue of the Government of Guam assessment.

*Water System Infrastructure Upgrade*

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

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

A new water system commercial agreement is currently being negotiated between the Authority and GWA to account for operational and maintenance omissions and deficiencies and to improve repair and replacement procedures. There is positive leadership that has placed the new agreement in a higher priority. The FAA would also require that the independent engineering firm that performed the review of the airport water system project assess that the final agreement between the Authority and GWA conforms to the uses noted in their report.

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

Notes to Financial Statements, continued

**11. Commitments and Contingencies, continued**

*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) Protest*

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.

Both parties have filed claims and counterclaims against each other alleging various breaches of contract. As of September 30, 2016, 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 contractual services in the accompanying 2015 statement of revenues, expenses and changes in net position.

*Exchange License Agreement*

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

In lieu of receipt of back rentals and future rentals for use of the encroached property, Core Tech accepted, in exchange, the use of the Authority's three 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. During the year ended September 30, 2015, the Authority paid approximately \$188,000. At September 30, 2016 and 2015, \$262,000 remained as unpaid obligation for inactive employees.

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

**12. Customs, Agriculture and Quarantine Inspection Services Charge**

During the years ended September 30, 2016 and 2015, the Authority has assessed and collected from air carriers fees for customs and agricultural inspection services rendered at the Airport terminal. Guam Public Law 23-45 requires the Authority to remit all collections, within five days of receipt, to the Treasurer of Guam for deposit to the Customs, Agriculture and Quarantine Inspection Services Fund.

For the years ended September 30, 2016 and 2015, fees assessed to air carriers related to the aforementioned arrangement totaled approximately \$12.7 million and \$12.5 million, respectively. For the years ended September 30, 2016 and 2015, remittances to the Treasurer of Guam related to the aforementioned arrangement totaled approximately \$9 million and \$8.9 million, respectively. For the years ended September 30, 2016 and 2015, the Authority offset \$3 million and \$3.3 million, respectively of customs fee payable with amounts owed from GovGuam CQA for its various lease agreements with the Authority.

At September 30, 2016 and 2015, the Authority recorded customs fees payable to the Treasurer of Guam totaling \$3,036,241 and \$2,402,667, respectively, for the above charges, of which \$2,263,354 and \$2,082,343, 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.

## Required Supplementary Information

Antonio B. Won Pat International Airport Authority, Guam  
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Schedule 1  
Required Supplementary Information  
Schedule of the Authority's Proportionate Share of Net Pension Liability (Unaudited)

Last 10 Fiscal Years\*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportionate share of the net pension liability	\$ 32,241,435	\$ 30,570,481	\$ 30,256,332
Authority's proportion of the net pension liability	2.35%	2.45%	2.32%
Authority's covered-employee payroll	\$ 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	252.00%	237.00%	292.00%
Plan fiduciary net position as a percentage of total pension liability	53.50%	56.60%	53.94%

\*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.

Antonio B. Won Pat International Airport Authority, Guam  
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Schedule 2  
Required Supplementary Information  
Schedule of the Authority's Contributions (Unaudited)  
Last 10 Fiscal Years

	<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>	<u>2007</u>
Contractually required contributions	\$ 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	\$ 1,518,374
Contribution in relation to the contractually required contribution	<u>3,178,277</u>	<u>3,297,500</u>	<u>2,857,688</u>	<u>2,405,802</u>	<u>2,372,679</u>	<u>2,241,150</u>	<u>1,928,192</u>	<u>1,735,488</u>	<u>1,597,251</u>	<u>1,518,374</u>
Contribution excess	<u>\$ -</u>									
Authority's covered-employee payroll	\$ 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	\$ 8,647,508
Contribution as a percentage of the Authority's covered-employee payroll	23.80%	25.79%	22.18%	23.23%	23.05%	23.04%	19.73%	19.49%	16.68%	17.56%

Note to Required Supplementary Information (Unaudited)

*Changes of Assumptions*

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

## Supplementary and Other Information

Antonio B. Won Pat International Airport Authority, Guam  
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Years ended September 30, 2016 and 2015

Schedule 3  
Facilities and Systems Usage Charges

	<u>2016</u>	<u>2015</u>
Passenger loading bridge usage charge	\$ 6,859,198	\$ 5,821,495
Arrival facilities	6,702,991	6,169,615
Departure facilities	6,400,921	5,890,505
Landing	2,725,891	2,682,133
Immigration	2,609,946	2,359,688
Public apron	1,041,373	2,624,653
Utility recovery and other fees	480,822	490,436
Fuel flowage	193,372	193,834
	<u>\$ 27,014,514</u>	<u>\$ 26,232,359</u>

Schedule 4  
Concession Fees

	<u>2016</u>	<u>2015</u>
General merchandise	\$ 15,218,825	\$ 15,248,782
Ground transportation	4,658,395	4,658,780
Car rental	1,273,662	1,132,445
Food and beverage	1,074,657	977,418
In-flight catering	893,235	854,722
Money exchange	441,926	409,813
Advertising	284,776	346,656
Parking lot	192,231	179,689
Other	189,104	192,118
	<u>\$ 24,226,811</u>	<u>\$ 24,000,423</u>

Schedule 5  
Rental Income

	<u>2016</u>	<u>2015</u>
Operating space:		
- Non-airline	\$ 4,335,216	\$ 4,303,443
- Airline	3,097,436	3,039,164
Building and maintenance shop rentals	1,755,089	1,828,413
Other	1,569,135	1,554,497
Cargo rentals	267,015	254,072
	<u>\$ 11,023,891</u>	<u>\$ 10,979,589</u>

Antonio B. Won Pat International Airport Authority, Guam  
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Years ended September 30, 2016 and 2015

Schedule 6  
Contractual Services

	<u>2016</u>	<u>2015</u>
Repairs and maintenance	\$ 6,135,592	\$ 5,344,323
Professional services	5,394,278	4,761,865
Power	3,821,612	5,175,620
Miscellaneous	1,740,385	3,473,452
Insurance	767,951	891,564
Advertising and promotions	734,070	542,327
Utilities and telephone	596,504	664,497
Travel/training and certifications	<u>307,225</u>	<u>206,468</u>
	<u>\$ 19,497,617</u>	<u>\$ 21,060,116</u>

Schedule 7  
Personnel Services

	<u>2016</u>	<u>2015</u>
Salaries and wages	\$ 13,107,529	\$ 13,353,696
Retirement contributions	3,298,311	3,335,924
Insurance	<u>1,045,757</u>	<u>984,687</u>
	<u>\$ 17,451,597</u>	<u>\$ 17,674,307</u>
Full-time employee count in September	<u>207</u>	<u>208</u>

Schedule 8  
Materials and Supplies

	<u>2016</u>	<u>2015</u>
Equipment and vehicle maintenance and supplies	\$ 487,793	\$ 359,550
Miscellaneous	334,274	139,741
Office and security supplies	272,612	248,060
Electrical and plumbing	196,623	127,001
Building maintenance and supplies	<u>114,638</u>	<u>118,290</u>
	<u>\$ 1,405,940</u>	<u>\$ 992,642</u>

Antonio B. Won Pat International Airport Authority, Guam  
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Year ended September 30, 2016

Schedule 9  
Insurance Coverage

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

Antonio B. Won Pat International Airport Authority, Guam  
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Years ended September 30, 2016 and 2015

Schedule 10  
Reconciliation of Historical Financial Results

	<u>Year ended September 30,</u> <u>2016</u>	<u>2015</u>
Change in net position:		
Revenues	\$ 73,182,558	\$ 71,057,893
Expenses	( 38,907,926 )	( 39,843,983 )
Income before depreciation	34,274,632	31,213,910
Depreciation	( 27,848,304 )	( 24,233,980 )
	6,426,328	6,979,930
Interest and other expenses	( 12,491,344 )	( 13,139,067 )
Grant from Government of Guam - OHS	24,218	14,914
Operating grants from the United States Government	390,277	478,808
Grants from the United States Government	<u>14,217,549</u>	<u>18,789,856</u>
Increase in net position	<u>\$ 8,567,028</u>	<u>\$ 13,124,441</u>
Net Revenues (per Bond Resolution):		
Revenues	\$ 73,182,558	\$ 71,057,893
Operation and maintenance expenses	( 37,282,220 )	( 39,894,688 )
Net revenues available for debt service	<u>\$ 35,900,338</u>	<u>\$ 31,163,205</u>
Reconciliation:		
Change in net position	\$ 8,567,028	\$ 13,124,441
Add back:		
Depreciation	27,848,304	24,233,980
Interest expense	12,394,123	12,806,782
Increase in net pension obligation	1,670,954	314,149
Deduct:		
Capital grants from the United States Government	( 14,217,549 )	( 18,789,856 )
Interest income on funds related to construction	( 265,301 )	( 194,006 )
Miscellaneous	<u>( 97,221 )</u>	<u>( 332,285 )</u>
	35,900,338	31,163,205
Other available monies	<u>5,968,625</u>	<u>5,967,025</u>
Funds available for debt service	<u>\$ 41,868,963</u>	<u>\$ 37,130,230</u>
Debt Service*	<u>\$ 23,874,500</u>	<u>\$ 23,868,100</u>
Debt Service Ratio	1.75	1.56

\* amounts of the aggregate annual debt service for such fiscal years as defined in the 2013 Bond Indenture Agreement

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

Years ended September 30, 2016 and 2015

Schedule 11  
Employee Data

Department	Employees (b)		Personnel Services (a)	
	2016	2015	2016	2015
Board	1	1	\$ 63,978	\$ 60,616
Administration	34 (c)	34 (c)	969,529	2,753,271
Property Management	11	11	855,967	914,556
Accounting	11	10	1,078,169	900,488
Engineering	7	7	673,402	408,908
Operations	19	20	1,925,193	1,767,348
Properties & Facilities Maintenance	40	40	3,102,570	2,653,918
Airport Police	47	46	4,807,045	4,230,600
Aircraft Rescue Fire Fighting	37	39	3,975,744	3,984,602
Total	<u>207</u>	<u>208</u>	<u>\$ 17,451,597</u>	<u>\$ 17,674,307</u>

Notes:

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

c. Administration consists of:	2016	2015
Executive management	3	3
Administrative support	11	12
Personnel	5	4
Marketing	3	4
Procurement	7	7
Management information system	5	4
	<u>34</u>	<u>34</u>