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# M&C Fwd: Guam International Airport Authority FY 2019 Financial Audit Reports

1 message

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*Sinseru yan Minagåhet,*

**Office of the Speaker • Tina Rose Muña Barnes**
Committee on Public Accountability, Human Resources & the Guam Buildup

35th Guam Legislature
*I Mina'trentai Singko na Liheslaturan Guåhan*

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From: **Andriana Quitugua** <aquitugua@guamopa.com>
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Subject: Guam International Airport Authority FY 2019 Financial Audit Reports
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Hafa Adai,

Transmitted electronically are Guam International Airport Authority FY 2019 Financial Highlights, Financial Statements, Report on Compliance and Internal Control, Management Letter, Letter to Those Schedule of Passenger Facility Charges, Corrective Action Plan, and Corrective Action Plan – Passenger Facility Charges. These reports may also be found at http://www.opaguam.org.

Best Regards,

**Andriana U.C. Quitugua, CFE**
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## A. B. Won Pat International Airport Authority – FY 2019 Financial Highlights

April 28, 2020

Hagåtña, Guam – The Office of Public Accountability released the Antonio B. Won Pat International Airport Authority's (Airport) Fiscal Year (FY) 2019 financial statements, reports on compliance and internal control, management letter, auditor's communication with those charged with governance, and schedule of passenger facility charges collected and expended, and corrective action plans. Independent auditors Ernst & Young, LLP rendered an unmodified (clean) opinion on the Airport's financial statements and compliance over major federal programs.

The Airport closed FY 2019 with an increase in net position (net income) of $3.3 million (M), which increased by $2M from FY 2018's net income of $1.2M. The Airport recognizes pension and other post-employment benefits (OPEB) liabilities for the plans it participates in. As of September 30, 2019, total pension and OPEB liabilities amounted to $78.9M while related expenses totaled $7.5M.

For FY 2019, the Airport did **not** qualify as a low-risk auditee after four consecutive years of low-risk status. This was due to a material weakness over the FY 2018 financial reporting. For FY 2019, the independent auditors identified one significant deficiency over major federal programs.

**Operating Revenues Slightly Increased by $23K**
Total operating revenues of $68.9M in FY 2019 slightly increased by $23 thousand (K). Facilities and systems usage charges of $31.3M increased by $3M due to an increase in passenger and airline activities. However, this was offset by a $3M decrease in Miscellaneous Revenue, due to a $3M decrease in legal fees reimbursements from the ongoing litigation with DFS Guam L.P. (DFS).

**Operating Costs and Expenses Increased by $2.2M**
Operating costs and expenses increased by $2.2M, from $42.7M in FY 2018 to $44.9M in FY 2019. The increase was attributed primarily to the $4.2M increase in personnel services, which was offset by the $2.1M decrease in contractual services. Personnel services increased due to a $3.7M increase in pension and OPEB expenses, as well as for overtime pay during Category 5 typhoons. Contractual services decreased mainly from the $3M reduction in legal services paid for ongoing DFS litigation, from $4.5M in FY 2018 to $1.5M in FY 2019.

Net non-operating revenue (expenses) significantly decreased by $4.4M, from a negative $4.8M in FY 2018 to a negative $477K in FY 2019. This was due primarily to the $2.2M decrease in interest expense from a reduction in debt service and liabilities without incurring additional debts.

**Litigation**
The Airport is involved in ongoing disputes with its former concessionaire, DFS, over DFS' concession agreement that expired in 2013. DFS initiated arbitration in 2014, and in 2016, the arbitration panel awarded DFS $1.9M in damages plus pre-award interest, attorneys' fees, arbitration costs, and post-award interest. In December 2018, the Superior Court of Guam confirmed the arbitration award, which the Airport appealed. However, because of pending motions

by the parties in the Superior Court, the Supreme Court of Guam does not yet have jurisdiction to hear the appeal. In January 2019, DFS demanded that the Airport immediately pay $2.2M due under the arbitration award plus interest. In February 2020, the Airport filed a motion to reverse the Confirmation Order and vacate the arbitration award. In the event the Airport must pay any judgment on the arbitration award, the range of loss amounts to approximately $1.9M to $3.4M. As of September 30, 2019, the Airport recorded a provision for loss of approximately $3.1M.

**Operational Achievement**
For three consecutive years, the Airport achieved a perfect 100% score in its Federal Aviation Regulations (FAR) Part 139 certification inspection conducted in October 2018. In recognition, it was bestowed the prestigious 2019 Airport Safety Award by the Federal Aviation Administration's Western Pacific Region Office in June 2019.

**Report on Compliance and Internal Control**
The independent auditors identified one significant deficiency in internal control over compliance of major federal programs. This pertained to six reimbursements totaling $380K, which were requested by the Airport prior to the actual payment to vendors for program costs. The independent auditors recommended that the Airport modify its internal control procedures to prevent the processing of reimbursements before payment of program costs and ensure compliance with federal requirements.

In a separate Report on Compliance and Internal Control over Passenger Facility Charges (PFC), the independent auditors noted one repeat significant deficiency relative to certain air carriers remitting PFC collections later than the required due date of the last day of the following calendar month when collections were received. These carriers continue to make late payments despite the Airport's efforts to remind them.

**Management Letter**
A separate management letter was issued identifying two repeat deficiencies in internal control pertaining to the Airport (1) not charging a 10% interest on the air carriers with late remittances and not depositing the collections on custom fees within five days of receipt; as well as (2) not formalizing standard operating procedures on federal awards recordkeeping.

**FY 2020 Outlook**
On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organizations, declared the novel corona virus (COVID-19) outbreak as "Public Health Emergency of International Concern". As the Airport's main business operations are dependent on visitors primarily from Japan, Korea, and the Philippines, the continued rise of COVID 19 cases in these countries has affected inbound/outbound flights. From February 2020 through April 2020, more than 948 flights (equal to approximately 175,000 seats) had been canceled. The Airport estimates approximately $9M in revenue loss, which may be exacerbated if the pandemic continues.

For more details, see the Management's Discussion and Analysis in the audit report. These reports may be downloaded at www.guamairport.com or at www.opaguam.org.

*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, 2019 and 2018*
*with Report of Independent Auditors*



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Doc. No. 35GL-20-1733.*

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, 2019 and 2018

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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, 2019 and 2018, 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.



A member firm of Ernst & Young Global Limited

***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, 2019 and 2018, 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 30, the Schedule of the Authority's Proportionate Share of the Net Pension Liability on pages 80, 82 and 84, the Schedule of the Authority's Contributions on pages 81, 83, 85 and 87 and the Schedule of the Authority's Proportionate Share of Collective Total Other Postemployment Benefit Liability on page 86 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.

*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 89 through 93 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in pages 89 through 93 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 17 - Employee Data on page 93 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 April 23, 2020 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 solely 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 effectiveness of the Authority's 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

April 23, 2020

# Management's Discussion and Analysis

Year ended September 30, 2019

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, 2019. 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$^{th}$ 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.

## C. Authority Activities and Highlights

Things continue to look up for the Antonio B. Won Pat International Airport Authority, Guam as more than 1,885,108 enplanements and 3,600,454 passenger movements processed through the island's only commercial airport in FY 2019. This represents a 5.9% increase in enplanements versus FY 2018 and surpasses the previous record of enplanements set in FY 2017 by 1.4%. Total passenger movements reflect an increase of 5.7% increase year-over-year and a 1.1% increase in comparison to FY 2017. This was a significant accomplishment given the large decreases in capacity from the suspension of several routes from Asian countries, mainly from Japan, as the Authority and other stakeholders worked collaboratively to encourage air service from this major Origin/Destination (O&D) market for Guam.

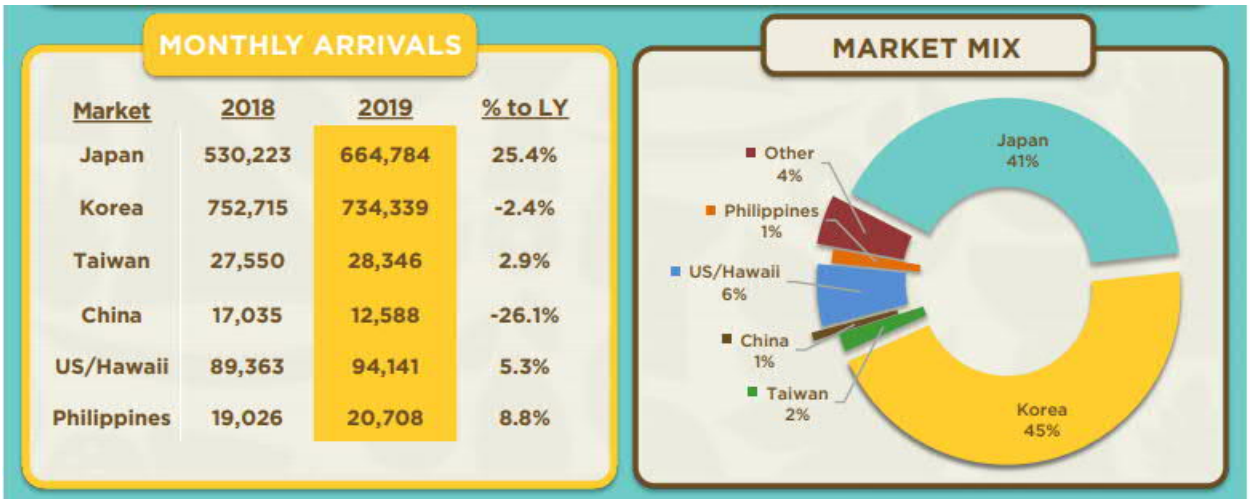
Signatory airlines accounted for 99.5% of the total outbound traffic in FY 2019, which amounted to 1,875,879 enplanements. Non-signatory activity that consists mainly of charter, general aviation operators, and drop-ins, accounted for the remaining .5%, or roughly 9,229 passengers. 94.2% of the Authority's outbound traffic is comprised of origin/destination (O/D) passengers from key markets of Japan, Korea, Taiwan, and China.

International Passenger deplanements which only count arriving, non-transit passengers for FY 2019 amounted to approximately 1,608,684 and correlates to the Guam Visitors Bureau (GVB) statistics of 1,620,954 visitor arrivals via air that was published in October 2019 (see Table 1). This represents a 7.9% increase year-over-year. GVB's report for FY 2019 further reflects a healthy increase after several years of decline in the Japan market of 25.4%, from 530,223 the prior year to 664,784 and accounted for 41% of the visitors to the island. This is a positive trend from this major O&D market, but still remains a far cry from its peak of 901,683 visitors in FY2012. The Korean market maintained its position after surpassing Japan as the prominent O&D market for Guam in FY 2018 bringing in 734,339 visitors and accounting for 45% of the visitors to the island.

Other source markets, which account for the remaining 14% of travelers to Guam, grew 3.7% year-over-year to 180,897 from 174,391 in FY 2018. The US/Hawaii market, which accounts for 6% of the total arrivals to Guam, saw an increase of 5.3%, from 89,363 to 94,141. Visitors from Taiwan increased 2.9% to 28,346 from 27,550 the prior year. Philippine arrivals were up 8.8% year-over-year from 19,026 to 20,708. The China market continues to experience disruptions due to geo-political issues and diminished capacities from direct and indirect air service within the country and surrounding regions of Taiwan and Hong Kong. The impact on what could potentially be a large O&D market for Guam, resulted in a -26.1% decrease year-over-year to 12,588 visitors versus 17,035 the prior year. Russian visitor arrivals continue to maintain steady growth with 5,189 visitors, reflecting 28.6% increase from 4,035 in FY 2018. Other emerging markets include visitors from Europe, which saw a 7.4% increase from 2,178 to 2,340, and Singapore, which nearly doubled its prior year activity, to a whopping 91.8% increase. From 795 visitors to 1,525 for FY 2019.

## C. Authority Activities and Highlights, continued

**Table 1. Guam Visitors Bureau Statistics and Marketing Mix**




*Source: GVB Statistics published October 2019*

The following airlines served the Authority with scheduled passenger service for FY 2019:

United Airlines, Air Busan, Air Seoul, Cebu Pacific, China Airlines, Japan Airlines, Jeju Air, Jin Air, Korean Air, Philippine Airlines, T'way Air, and Aerospace Concepts (which operates as a business jet service). All-Cargo operators include Asia Pacific Airlines, Federal Express, and UPS. Star Marianas and Arctic Circle also provide services to the CNMI from Guam utilizing aircraft weighing 12,500 pounds or lower on a scheduled and charter basis for passenger/cargo services.

## C. Authority Activities and Highlights, continued

ANTONIO B. WON PAT INTERNATIONAL AIRPORT AUTHORITY, GUAM
Management Discussion and Analysis
Years ended September 30
Authority Activities and Highlights

| | 2019 | 2018 | 2017 | 2019 % Increase (Decrease) from 2018 |
|---|---|---|---|---|
| Major revenue sources: | | | | |
| Landing fees (a) | $ 3,529,497 | $ 3,855,236 | $ 3,449,352 | -8.4% |
| Terminal Lease | 12,821,452 | 12,008,558 | 11,618,961 | 6.8% |
| Concessions and parking | 22,222,181 | 23,043,383 | 24,259,069 | -3.6% |
| Total | $ 38,573,130 | $ 38,907,177 | $ 39,327,382 | -0.9% |
| Passenger (enplanements)activity: | | | | |
| Signatory airlines | 1,875,879 | 1,767,087 | 1,832,104 | 6.2% |
| Non signatory and Other airlines | 9,229 | 13,485 | 26,275 | -31.6% |
| Total enplanements | 1,885,108 | 1,780,572 | 1,858,379 | 5.9% |
| Aircraft operations | 54,538 | 54,592 | 60,434 | -0.1% |
| Aircrafted landed weights (000,000) | 3,372,358 | 3,061,959 | 3,332,805 | 10.1% |
| O & D passengers | 3,435,908 | 3,221,986 | 3,363,788 | 6.6% |
| Transfer passengers | 164,546 | 184,518 | 197,831 | -10.8% |
| Total passengers | 3,600,454 | 3,406,504 | 3,561,619 | 5.7% |

***Capital Improvements***

For the last several years, the Authority has embarked on a multiyear capital improvement program (CIP) based on its 2012 Master Plan Update. Many of the projects are focused on increasing capacity, facilitating passenger processing through the federal inspection services process, and enhancing customer safety and security. Other projects look to reducing airport noise and providing infrastructure that will create future opportunities for our island community. The Authority anticipates spending approximately $209 million over the next few years to complete these upgrades that would create efficiencies to move people and cargo through the island's key essential facility to its tourism driven economy. The following are CIP projects that are currently underway, in the procurement process, or in the planning process.

## C. Authority Activities and Highlights, continued

***Projects Currently Underway***

- *3rd Floor International Arrivals Concourse w/Seismic Upgrades.* The Authority is in the process of constructing a new sterile international arrivals corridor leading from the loading bridges to the federal inspection areas in the passenger terminal building and making additional terminal improvements to replace the portable walls that currently separate departing TSA-screened passengers from non-TSA-screened arriving passengers. The third phase of four phases is currently underway and the project is expected to be completed August 2020. In addition, seismic upgrades to the passenger terminal building's infrastructure are being made in order to support the 3rd Floor International Arrivals Concourse. Sources of funding for this project include proceeds from the Series 2013 Bonds, capital improvement funds, and FAA entitlement grants to complete the estimated $122 million dollar project.

- *Security Screening Checkpoint.* The Authority intends to improve the TSA Security Screening Checkpoints in the passenger terminal building by adding additional security lanes and reconfiguring the TSA support space. The TSA is expected to provide equipment for the project with sources of funding coming from the capital improvement funds.

- *Aircraft Rescue and Firefighting Facility (ARFF).* The Authority intends to construct a new Aircraft Rescue and Firefighting Facility to replace the current aging structure. Construction commenced March 2018. Phase I of the project, which included demolition and site prep, was completed November 2018. Phase II of the project, which includes construction of the facility, is currently underway. The project is expected to be completed November 2020. This $23.4 million project is funded in large part by $20.5 million in discretionary grant funds from the FAA.

- *Runway 6L/24R Rehabilitation.* This project includes rehabilitation of over 9,500 linear feet of the Authority's 12,000 feet primary runway, 6L/24R. Phase Ia of the project, which is expected to commence shortly pending formal Notice to Proceed from the FAA, is anticipated to cost $11.015 million and will conduct repairs to the areas constructed with Portland Cement Concrete. Total project cost is estimated at approximately $22 million with 90% financed by the FAA and 10% matching funds from the Authority.

- *Residential Sound Solution Program.* This project provides for noise mitigation of residences located within the 65db range of continuous operations surrounding the airport. The Authority sound proofed 11 homes and completed the preliminary screening for 70 additional residences.

## C. Authority Activities and Highlights, continued

***Projects in the Procurement Process***

- *Airport Aprons & Taxiway Rehabilitation.* This project includes rehabilitating over 1.5 million square feet of the parking/apron areas and the Kilo taxiway in front of the terminal and airfield. The project will enable the Authority to maintain its capacity and to increase the safety and efficiency of aircraft and ground support equipment operations, personnel activities, passenger movements, and airport servicing. The total project costs are estimated at $46 million. 90% of the project is anticipated to be funded using discretionary grants from the FAA with the remaining 10% financed using funds from the Authority.

- *Cargo Apron/Fuel System Extension.* This project includes constructing a cargo apron and connecting taxiway and extending the Airport's fuel system to service the Integrated Air Cargo Facility located approximately one-half mile west of the air terminal. The Authority is currently negotiating fee proposals for the design. 90% of the project is anticipated to be funded using discretionary grants from the FAA with the remaining 10% financed using funds from the Authority.

***Projects in Planning Process***

- *Parking Facilities.* The Authority intends to construct a single-level parking deck over the existing commercial vehicle area to replace lost parking capacity resulting from the expansion of Route 10A, the Airport Access Road.

- *IT Upgrades.* The Authority intends to make upgrades to its Information Technology and Financial Management systems and related infrastructure improvements.

- *Passenger Terminal Improvements.* The Authority intends to make certain improvements to the passenger terminal building, including: 1) replacement of flooring in portions of the passenger terminal; 2) enclosure of the arrivals tunnel and installation of a climate control system to expand arrivals lobby area and add commercial space; 3) expand canopies on the departure area curbside; and 4) replace aging terminal seating and install additional seating in the passenger terminal building.

- *Replacement of the Conveyance Systems.* The Authority intends to replace aging elevators, escalators and moving walkways with more energy efficient equipment.

- *Replacement of Terminal Roofing System:* The Authority intends to replace and improve the terminal area roof membrane that is not connected to the 3rd Floor International Arrivals Corridor for more energy efficiencies and cost savings.

## C. Authority Activities and Highlights, continued

The Authority may in the future, include additional capital projects in the CIP, which may be financed through a combination of Authority funds, Passenger Facility Charge revenues, additional bonds, and/or additional federal grants. These projects will be focused on enhancing capacity, increase safety and security, incorporate modern technology to achieve operational efficiencies, and optimize facility utilization focused on providing world class airport experience for travelers.

***Financial and Operational Results***

*Net Position*

FY 2019 saw a 5.7% increase in total passenger activity of 3,600,454 movements from the prior year of 3,406,504. Despite the robust growth rate, the change in net position of the Authority only increased marginally by 1.2% from $281.5 million to $284.8 million year-over-year. This could be attributed to the 11.5% increase to $253.7 million versus $227.6 million the prior year *Invested in capital assets – net of related debt* as the $122 million 3rd Floor Arrivals Corridor project and other CIP projects move toward completion. Conversely, this required substantial draw downs on the Authority's *Restricted* net assets by -41.4% from $57.4 million to $33.6 million, and its *Unrestricted* net assets by -25.7% from ($3.5) million to ($2.6) million, respectively.

In addition to the foregoing, the Authority's conformance with GASB No. 68 *(Accounting and Financial Reporting for Pensions)* and No. 75 (*Accounting and Financial Reporting for Postemployment Benefits other than Pensions),* reflects the Authority's proportionate share of its deferred outflows and deferred inflows for FY 2019. Deferred outflow for pension and other postemployment benefits other than pensions equaled to $18.0 million versus prior year figure of $8.1 million, more than twice the prior year by approximately 122.2% year-over-year. Deferred inflow for pension and other postemployment benefits other than pensions saw an even greater increase as well, from $5.6 million to $18.8 million, a whopping 236.3% increase for the same period. The large disparities were a result of the Authority's restatement and adjustment of its prior year financials relative to GASB No. 68 and No. 75.

*Cost per Enplaned Passenger (CPE) & Debt Service Coverage.*

The cost per enplaned passenger (CPE) for signatory airlines is continuously monitored by the Authority, as they strive to provide a competitive cost structure for its airline partners while maintaining a superior and reliable level of airport services. CPE for FY 2019 rose 5.5% from $17.21 in FY 2018 to $18.15. The increase resulted from a decrease in non-aeronautical revenues in addition to a surge in operating expenses due to several natural disasters occurring throughout the period. Debt Service Coverage (DSC) for the same time period was recorded at 1.66x, providing sufficient coverage beyond the 1.25x DSC requirement stipulated in the 2013 bond covenants.

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

*Credit Ratings*

The Authority is cognizant of its fiduciary responsibilities and continues to provide sound financial management of Guam's only commercial airport and lifeline to the island's tourism-driven economy. Rating agencies Standard and Poor's (S&P) and Moody's Investor Services reaffirmed the Authority's credit ratings for its General Revenue Bonds issued in 2013. Moody's maintained its Baa2 investment grade rating for the Authority while S&P upgraded theirs from BBB to the next higher-tier level of BBB+. Both agencies issued "stable outlook" for their respective credit ratings. These ratings validate the Authority's prudent financial management and ability to pay down its debt, especially during a period where massive capital improvements and upgrades to its facilities are impacting operational revenues, along with suspension of air service to the market. (*sources: Moody's Report March 2019/S&P Report December 2018*).

*Operations*

For the 3rd straight year in a row, the Authority achieved a perfect 100% score with zero discrepancies as part of its annual FAR Part 139 certification inspection held October 2018. The extensive certification process determines compliance with 14 U.S. Code of Federal Regulations (CFR) 139, the Airport's Certification Manual and the Airport Operating Certificate that covers 123 fields of federal compliance emphasizing safety and security. This unprecedented status is a true testament to the professionalism and hard work of its employees, tenants, and stakeholders, and evidence of the Authority's strict adherence to the highest standards of safety and security in the procedures and operations of the A.B. Won Pat International Airport.

In recognition of this accomplishment, the Authority was bestowed the prestigious 2019 Airport Safety Award by the FAA's Western Pacific Region Office at its 10th Airports Conference in June 2019. The Authority's management and staff were recognized for the exemplary work accomplished in operating and maintaining the airport to the highest of safety standards. Moreover, the FAA noted that the Authority continues to support the airports of the neighboring Micronesian island airports with operations, security and Aircraft Rescue and Fire Fighting (ARFF) training and resource sharing.

In a report published June 2019 by the National Travel and Tourism Office (NTTO), US Department of Commerce Authority, Guam ranked 10th amongst the top 15 ports of entry for international arrivals for all United States ports in 2018. The Authority received 1,358,225 foreign visitors to the island for the year, behind Chicago, Illinois (1,678,744) and ahead of Ft. Lauderdale, Florida (1,226,1131). Preliminary figures released by the NTTO in August 2019 shows Guam maintaining its ranking through June 2019 with the Authority receiving 1,063,785 foreign visitors, once again trailing behind Chicago (1,123,071) and ahead of Ft. Lauderdale (897,377).

**D. Financial Operation Highlights**

*Total Net Position*

Aside from the CIP Projects and conformance with GASB No. 68 and 75, the Authority's 1.2% change in net position from $281.5 million to $284.8 million year-over-year was further impacted in changes in Total Assets and Deferred Outflow of Resources and change in Total Liabilities.

Total Assets and Deferred Outflow of Resources reflect a .5% increase as current assets were down -7.94% due largely in part to a decrease in disbursements received from the federal government for progress payments of federally funded projects, and the remittance of restricted current assets relative to the Guam Customs User fee. Additionally, non-current assets reflect a -38.0% decrease in restricted assets as drawdowns relative to the 3rd Floor International Arrivals Corridor and other CIP projects move closer to completion.

Total Liabilities were down -4.1% as the Authority continues to pay down its current and long-term liabilities for the same time period. The Authority's financial prudence continue to reflect sound management practices in increasing its Total Liabilities and Net Position .5% from $611.9 million in FY 2018 to $615.0 for FY 2019.

The marginal change in net position of $3.3 million year-over-year, is a result of the Authority's ability to exercise its fiduciary responsibilities while pursuing CIP projects that will increase its capacity and facilitate passengers more efficiently, in a safe and secure traveling environment.

## *Financial Position Summary*

A condensed summary of the Authority's Statements of Net Position at September 30, 2019, 2018, and 2017 is shown below:

**ANTONIO B. WON PAT INTERNATIONAL AIRPORT AUTHORITY, GUAM**

**Management Discussion and Analysis**

**Years ended September 30**

***Financial Position Summary***

| | 2019 | 2018 | 2017 | 2019 % Increase (Decrease) from 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets:** | | | | |
| Unrestricted current assets | $ 9,759,401 | $ 10,355,627 | $ 21,475,985 | -5.8% |
| Restricted currents assets | 1,881,854 | 2,289,932 | 1,982,326 | -17.8% |
| **Non-current assets:** | | | | |
| Unrestricted assets | 91,231,195 | 85,449,399 | 68,117,428 | 6.8% |
| Restricted assets | 39,266,254 | 63,351,017 | 91,028,546 | -38.0% |
| Capital assets | 446,553,710 | 432,542,017 | 418,738,589 | 3.2% |
| Avigation easements | 7,845,350 | 9,121,529 | 10,397,709 | -14.0% |
| Accounts Receivable - Trade Long Term | 507,600 | 637,200 | 766,800 | -20.3% |
| Deferred Outflow - Pension | 4,597,034 | 3,794,526 | 3,877,874 | 21.1% |
| Deferred Outflow - Other Post Employment Benefits | 13,379,839 | 4,323,359 | 5,275,020 | 209.5% |
| Total Assets and Deferred Outflow of Resources | $ 615,022,237 | $ 611,864,606 | $ 621,660,277 | 0.5% |
| **LIABILITIES** | | | | |
| **Current liabilities:** | | | | |
| Payable from unrestricted assets | $ 24,542,955 | $ 23,772,009 | $ 19,946,752 | 3.2% |
| Payable from restricted assets | 20,276,979 | 20,392,509 | 20,170,952 | -0.6% |
| Long term liablities | 266,556,173 | 280,459,537 | 300,764,870 | -5.0% |
| Total | $ 311,376,107 | $ 324,624,055 | $ 340,882,574 | -4.1% |
| **Deferred inflow of resources:** | | | | |
| Deferred differences on refunding of 2013 bonds | $ 117,061 | $ 172,676 | $ 237,873 | -32.2% |
| Deferred inflow - Pension | 898,574 | 1,464,826 | 296,651 | -38.7% |
| Deferred inflow - Other Post Employment Benefits | 17,869,987 | 4,114,765 | - | |
| Total Deferred Inflow of Resources | $ 18,885,622 | $ 5,752,267 | $ 534,524 | |
| **NET ASSETS** | | | | |
| Invested in capital assets - net of related debt | 253,719,950 | 227,626,465 | 202,319,134 | 11.5% |
| Restricted | 33,632,254 | 57,416,767 | 84,808,546 | -41.4% |
| Unrestricted | (2,591,696) | (3,554,948) | (6,884,501) | -27.1% |
| Total Net Position | 284,760,508 | 281,488,284 | 280,243,179 | 1.2% |
| Total liabilities and net position | $ 615,022,237 | $ 611,864,606 | $ 621,660,277 | |

**D. Financial Operation Highlights, continued**

***Operational Revenues***

Operational revenues for FY 2019 remained flat year-over-year, which amounted to $69.3 million, in spite of the 5.7% increase in passenger movements from 3,406,504 to 3,600,454. The Authority's operational revenues, which consist of facilities and use charges, concession fees, rental income, and miscellaneous revenues, saw 10.7% increase in its facilities and use charges of $3 million from $28.3 million to $31.3 million for the same period. This increase was off-set however, by a -3.6% decrease in total concession fees that could be mainly attributed to the -9.9% decrease in general merchandise concession fees of $1.5 million from $14.8 million to $13.3 million, due to operational disruptions caused by the ongoing construction and progress of the Authority's CIP projects.

Aeronautical revenue in FY 2019 generated approximately $35.6 million and accounted for 51.3% of the Authority's operational revenue. This was the first time in six years that this revenue source accounted for more than 50% of the Authority's operational revenue. The Authority was successful in increasing passenger activity while providing incentives to the respective airline partners without jeopardizing its debt service coverage under the 2013 Bond covenants.

Non-aeronautical revenue which is comprised of concession fees, lease of operating space from non-airline and other tenants, as well rental and miscellaneous income from other sources, continued its downward trend in FY 2019 and only accounted for 48.7% of the Authority's operational revenue. This was the first time in six years that this revenue source, which amounted to $33.7 for the current year, accounted for less than 50% of the Authority's operational revenues. The $3.5 million variance from $37.2 million recorded in FY 2018 is attributed to the aforementioned -9.9% decrease in general merchandise concession fees and a -53.9% decrease in miscellaneous revenues that may be attributed to the reduced reimbursements of legal fees connected to the ongoing suit with DFS.

General merchandise concession revenue continues to account for the largest contribution of operational revenue of approximately 20% annually. The amended agreement with Lotte Duty Free generated $13.3 million in revenue versus the $14.8 million generated in FY 2018 for the Authority. This revenue source may have been constrained in FY 2019 by the operational disruptions caused by the ongoing construction for the 3rd Floor Arrivals Concourse.

The 6.1% increase in Food and beverage (F&B) concessions for FY 2019 correlate to the 5.9% growth in enplanements for the same time frame. Revenue from this key concession exceeded the million-dollar threshold for the 4th straight year, amounting to $1.084 million versus the $1.021 million recorded the prior year.

**D. Financial Operation Highlights, continued**

The average spend per enplaned passenger for general merchandise and F&B was down -14.0% to $7.65 from $8.89 the prior year. The reduced dwell time in these key concessions due to the ongoing construction and improvements, exacerbated by the increase in passenger activity, may have impacted the spend per enplanement.

Car rentals continue to grow at a steady rate as revenues surged 8.9% to $1.67 million versus the prior year figure of $1.53 million. Ground transportation recovered from its -18.5% decline in FY 2018 which generated $3.5 million from the prior year. FY 2019 revenues for this concession which accounts for 5-6% of the Authority's operating revenues annually, reflect $4.0 million collected for the year.

***Non-Operating Revenues***

Non-operating revenues, which are comprised of interest income, passenger facility charges (PFCs), grants from the US government, and other miscellaneous sources increased 3.7% as a result of the increase in passenger activity for the Authority. Total non-operating revenues amounted to $18.2 million in FY 2019 versus the $17.5 million recorded the prior year.

Interest income generated $2.47 million for the Authority, a 19% increase over figures for FY 2018 of $2.08 million. The Authority continues to exercise its due diligence in enhancing this particular revenue stream by diversifying its portfolio and investing in short-term, high yield instruments such as certificates of deposits and treasury bonds.

Passenger facility charges which is assessed for enplaned passengers, is used to fund the myriad of capital improvement projects undertaken by the Authority that are federally approved, and can also include payment of debt service for these projects. In FY 2019, the Authority collected $7.36 million in PFCs, representing a 4.0% increase over the $7.08 collected in FY 2018.

The Authority aggressively seeks federal funding in the form of grants to fund airport improvements that will enhance the safety, security, or capacity, reduce airport noise, and increase air carrier competition for Guam's only commercial airport. Annually, the Authority receives over $4 million in entitlement funding that is calculated based on the total number of enplanements from the prior year. In addition, the Authority aggressively pursues and is awarded discretionary grants on an annual basis. These grants can amount to $6-10 million dollars on average. Since FY 2016, the Authority has been awarded $41.2 million by the FAA of which $24.03 million has been received, to include the $7.7 million received in FY 2019. The revenue from these grants are based on reimbursable payments as the Authority first pays out and then draws down on the grant against the project they were awarded for. $17.2 million remain undistributed and will be drawn against as the Authority awaits to make progress payments to their respective vendors for the various federally funded CIP projects.

## D. Financial Operation Highlights, continued

### *Operational Expenses*

Operational expenses for the Authority increased by 5.5% year-over-year, equaling $48.7 million for FY 2019 versus $46.1 million for FY 2018.

Personnel services, which accounted for the largest increase in operating expenses of 31.0% year-over-year, equaled to $18.1 million in FY 2019. This was up $4.2 million from $13.9 million incurred in FY 2018. This increase may be attributed to the Authority's conformance with GASB No. 68 and No. 73, which reflects true salaries and benefits less pension plans and other post-employment benefits. In addition, the series of Category 5 typhoons (Mangkhut, Yutu and Wutip) that came through the Marianas in FY 2019, required additional overtime for the Authority's personnel to ensure Guam's only commercial airport continued to operate with minimal disruption from the storms, without sacrificing the safety and security of the traveling public. Additionally, Authority personnel were dispatched to the Commonwealth of the Northern Marianas to assist in their recovery efforts.

Contractual services decreased -7.7% for the same period to $25.5 million versus $27.7 million the prior year. This reduction in services was mainly attributed to the decrease in legal services required by the Authority in FY 2019.

Material and supplies expenses increased 4.1%, approximately $49 thousand, from $1.19 million to $1.24 million year-over-year. This increase may be attributed to the purchase of new office supplies and equipment, which included: 1) new time clocks to support the updated timekeeping system; 3) continuance of the Authority' MIS upgrades with the replacement of more modern and efficient computer laptops and work stations; and 3) purchase of luggage scales displaced throughout the departure lobby to assist outbound passengers.

Depreciation and amortization expenses remained relatively flat at .2% growth, amounting to $28.0 million year-over-year.

As of September 30, 2019, the Authority employed 203 full-time employees (FTEs).

### *Non-Operating Expenses*

Non-operating expenses for FY 2019 continue to decrease as the Authority pays down on its debt service and liabilities without incurring additional debt. Total non-operating expenses reflects a -34.1% decrease year-over-year, equating to a $3.9 million variance to $7.6 million in FY 2019 versus the previous year of $11.5 million.

**D. Financial Operation Highlights, continued**

***Airline Signatory Rates & Charges***

The Signatory Airline Agreement is vital to the Authority and its signatory airline partners as it provides those airlines with the nonexclusive right to use airport facilities, equipment improvements and services, in addition to occupying certain exclusive use premises and facilities, at favorable rates. In return, the Authority, with the signatory airline partners as the guarantors, protects its financial position and ability to set rates and charges to cover its cost of operations.

Majority of the airlines operating at the A.B. Won Pat International Airport, Guam for FY 2019 are Signatory airlines. They comprised 99.5% of passenger activity for the Authority. They include the following carriers: United Airlines, Air Busan, Air Seoul, Cebu Pacific, China Airlines, Japan Airlines, Jeju Air, Jin Air, Korean Air, Philippine Airlines, T'way Air, and Aerospace Concepts (which operates as a business jet service). An updated agreement was negotiated during FY 2019 and anticipated to take effect in FY 2020 with many of the same carriers.

A summary of revenues for the years ended September 30, 2019, 2018 and 2017 and the amount and percentage of change in relation to prior year is on the following page.

## D. Financial Operation Highlights, continued

### *Revenues*

**ANTONIO B. WON PAT INTERNATIONAL AIRPORT AUTHORITY, GUAM**
**Management Discussion and Analysis**
**Years ended September 30**

***Revenues***

| | 2019 | 2019 % of Total | 2018 | 2018 % of Total | 2017 | 2017 % of Total | 2019 % Increase (Decrease) from 2018 |
|---|---|---|---|---|---|---|---|
| Arrival facilities | $ 8,523,065 | 9.7% | $ 6,438,454 | 7.4% | $ 7,217,137 | 7.8% | 32.4% |
| Departure facilities | 8,347,102 | 9.5% | 6,559,487 | 7.5% | 7,262,796 | 7.9% | 27.3% |
| Passenger loading bridge | 5,674,619 | 6.5% | 6,895,713 | 7.9% | 6,152,234 | 6.7% | -17.7% |
| Landing fees | 3,529,497 | 4.0% | 3,855,235 | 4.4% | 3,449,352 | 3.7% | -8.4% |
| Immigration | 2,992,580 | 3.4% | 2,143,829 | 2.5% | 2,561,033 | 2.8% | 39.6% |
| Public apron | 1,434,721 | 1.6% | 1,599,047 | 1.8% | 1,624,347 | 1.8% | -10.3% |
| Utilitiy recovery charge and other fees | 589,105 | 0.7% | 587,975 | 0.7% | 517,710 | 0.6% | 0.2% |
| Fuel flowage fee | 251,570 | 0.3% | 226,352 | 0.3% | 220,539 | 0.2% | 11.1% |
| Total facilities and use charges | 31,342,259 | 35.8% | 28,306,092 | 32.6% | 29,005,148 | 31.4% | 10.7% |
| General merchandise | 13,340,866 | 15.2% | 14,814,811 | 17.0% | 15,262,095 | 16.5% | -9.9% |
| Ground transportation | 4,056,595 | 4.6% | 3,509,509 | 4.0% | 4,308,545 | 4.7% | 15.6% |
| Car rental | 1,669,979 | 1.9% | 1,533,183 | 1.8% | 1,493,833 | 1.6% | 8.9% |
| Food and beverage | 1,084,172 | 1.2% | 1,021,361 | 1.2% | 1,076,606 | 1.2% | 6.1% |
| In-flight catering | 890,493 | 1.0% | 844,661 | 1.0% | 871,110 | 0.6% | 5.4% |
| Other | 1,180,076 | 1.3% | 1,319,858 | 1.5% | 1,246,880 | 1.3% | -10.6% |
| Total concession fees | 22,222,181 | 25.4% | 23,043,383 | 26.5% | 24,259,069 | 25.9% | -3.6% |
| Operating space - airline | 4,268,780 | 4.9% | 3,839,952 | 4.4% | 3,766,025 | 4.1% | 11.2% |
| Operating space - non airline | 4,778,328 | 5.5% | 4,500,606 | 5.2% | 4,196,326 | 4.5% | 6.2% |
| Other | 3,774,344 | 4.3% | 3,668,000 | 4.2% | 3,656,610 | 4.0% | 2.9% |
| Total rental income | 12,821,452 | 14.6% | 12,008,558 | 13.8% | 11,618,961 | 12.6% | 6.8% |
| Grants from the US Government | 415,108 | 0.5% | 413,100 | 0.5% | 421,580 | 0.5% | 0.5% |
| Grant from the Government of Guam | - | 0.0% | 11,368 | 0.0% | 28,968 | 0.0% | -100.0% |
| Miscellaneous | 2,566,924 | 2.9% | 5,571,796 | 6.4% | 5,133,844 | 5.6% | -53.9% |
| Total operating | 69,367,924 | 79.2% | 69,354,297 | 79.8% | 70,467,570 | 75.9% | 0.0% |
| Interest income | 2,472,913 | 2.8% | 2,077,360 | 2.4% | 1,269,029 | 1.4% | 19.0% |
| Passenger facility charge | 7,362,377 | 8.4% | 7,081,113 | 8.1% | 7,286,165 | 7.9% | 4.0% |
| Grants from the US Government | 7,766,386 | 8.9% | 7,928,287 | 9.1% | 13,586,533 | 14.7% | -2.0% |
| Other | 627,491 | 0.7% | 496,880 | 0.6% | 174,953 | 0.3% | 26.3% |
| Total non-operating | 18,229,167 | 20.8% | 17,583,640 | 20.2% | 22,316,680 | 24.1% | 3.7% |
| Total revenues | $ 87,597,091 | 100.0% | $ 86,937,937 | 100.0% | $ 92,784,250 | 100.0% | 0.8% |

## D. Financial Operation Highlights, continued

### *Expenses*

A summary of expenses for the years ended September 30, 2019, 2018 and 2017 and the amount and percentage of change in relation to prior year is as follows:

**ANTONIO B. WON PAT INTERNATIONAL AIRPORT AUTHORITY, GUAM**

**Management Discussion and Analysis**

**Years ended September 30**

***Expenses***

| | 2019 | 2019 % of Total | 2018 | 2018 % of Total | 2017 | 2017 % of Total | 2019 % Increase (Decrease) from 2018 |
|---|---|---|---|---|---|---|---|
| Contractual services | $ 25,529,975 | 30.3% | $ 27,672,687 | 32.3% | $ 23,996,751 | 27.1% | -7.7% |
| Personnel services | 18,131,871 | 21.5% | 13,884,736 | 16.2% | 18,267,920 | 20.6% | 30.6% |
| Materials and supplies | 1,236,584 | 1.5% | 1,187,924 | 1.4% | 1,365,208 | 1.5% | 4.1% |
| Other | 3,762,275 | 4.5% | 3,417,345 | 4.0% | 4,419,075 | 5.0% | 10.1% |
| Total operating expenses | 48,660,705 | 57.8% | 46,162,692 | 53.9% | 48,048,954 | 54.2% | 5.4% |
| Depreciation and amortization | 28,071,896 | 33.3% | 28,017,442 | 32.7% | 27,365,679 | 30.9% | 0.2% |
| Non-Operating: | | | | | | | |
| Interest expense | 7,528,494 | 8.9% | 9,719,495 | 11.3% | 11,281,416 | 12.7% | -22.5% |
| Other | 63,771 | 0.1% | 1,793,213 | 2.1% | 1,894,652 | 2.1% | -96.4% |
| Total non-operating expenses | 7,592,266 | 9.0% | 11,512,708 | 13.4% | 13,176,068 | 14.9% | -34.1% |
| Total expenses | $ 84,324,866 | 100.1% | $ 85,692,842 | 100.0% | $ 88,590,701 | 100.0% | -1.6% |
| Total full time employees | 203 | | 209 | | 207 | | -2.9% |

## D. 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, 2019, 2018 and 2017and the amount and percentage of change in relation to prior year is as follows:

| | 2019 | | 2018 | | 2017 | |
|---|---|---|---|---|---|---|
| | Actual | % of Total | Actual | % of Total | Actual | % of Total |
| **Airport Revenues** | | | | | | |
| Signatory Airline rentals and fees | $ 34,040,355 | 43.6% | $ 30,404,908 | 39.2% | $ 30,935,494 | 39.4% |
| Revenue from sources other than Signatory Airline rentals and fees | 34,912,461 | 44.7% | 38,525,895 | 49.7% | 39,075,422 | 49.8% |
| Passenger Facility Charge revenue | 7,362,377 | 9.4% | 7,081,113 | 9.1% | 7,286,165 | 9.3% |
| Operating Grants | 415,108 | 0.5% | 424,467 | 0.5% | 450,548 | 0.6% |
| Interest Income not related to construction | 1,326,717 | 1.7% | 1,060,981 | 1.4% | 746,384 | 1.0% |
| **Airport Revenues** | $ 78,057,017 | 100.0% | $ 77,497,364 | 100.0% | $ 78,494,013 | 100.0% |
| | | % Change | | % Change | | |
| Signatory Airline enplaned passengers | 1,875,879 | 6.2% | 1,767,087 | -3.5% | 1,832,104 | |
| Signatory Airline cost per enplaned passenger | $18.15 | 5.5% | $17.21 | 1.9% | $16.89 | |

### *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, 2019, 2018 and 2017 is as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Airport Revenues** | $ 78,057,017 | $ 77,497,364 | $ 78,494,013 |
| **Less: Operation and Maintenance Expenses** | (44,300,723) | (47,497,544) | (45,384,833) |
| **Net Revenues** | $ 33,756,294 | $ 29,999,820 | $ 33,109,180 |
| **Plus: Other Available Moneys** | 5,968,250 | 5,969,625 | 5,967,500 |
| **Net Revenues and Other Available Moneys** | $ 39,724,544 | $ 35,969,445 | $ 39,076,680 |
| **Rate Covenant** | | | |
| **Net Revenues and Other Available Moneys** | $ 39,724,544 | $ 35,969,445 | $ 39,076,680 |
| **Total Annual Debt Service** | $ 23,873,000 | $ 23,878,500 | $ 23,870,000 |
| **Annual Debt Service Coverage** | 1.66 | 1.51 | 1.64 |
| **Debt service coverage requirement** | 1.25 | 1.25 | 1.25 |

## E. Outlook for FY 2020

FY 2020 initially looked to be another record-breaking year for the Authority. Through the first four months (October-January) more than 593,704 visitors came to Guam (GVB Passenger Statistics, February 2020). Those figures were before Guam's economy along with the rest of the world's global markets succumbed to the Corona Virus (COVID-19) Pandemic.

### *Corona Virus (COVID-19) Pandemic*

The Corona Virus Pandemic began in late December in Wuhan, China and the effects of the pandemic finally reared its ugly head on Guam in March 2020. The impact of this deadly virus began to affect Guam's tourism driven economy in February 2020, and for the Authority, many of its airline partners.

Through April 2020, more than 948 flights (equal to approximately 175,000 seats) have been canceled. The Authority estimates approximately $9 million in revenue will be lost during this time frame and may be exacerbated if the pandemic continues as many of the neighboring O/D markets like Korea, Japan and China have restricted their residents from traveling in an effort to decrease community spread and contain this worldwide pandemic.

### *Essential Facility*

Notwithstanding the Pandemic Outbreak, the Authority continues to do its share to mitigate this unprecedented situation. In the meantime, as the caretaker of a key essential facility and economic driver for the island and the region, and with more than three million passenger movements annually, the Authority will continue to find ways to connect Guam and the rest of the Micronesian region to the outside world through a symbiotic relationship with its airline partners.

The Authority accommodates over 50,000 flights annually, providing connectivity through 11 signatory carriers to 18 origination points in Asia, Micronesia and the mainland United States via one-stop service through Honolulu, Hawaii or major Asian cities in Japan and Korea.

While the Authority aspires to connect people and business, and promote commerce, its focus is to make Guam's only commercial airport more than a connecting point. In FY 2020, the Authority will embark on a journey to transform the airport into a "destination" where a passenger's travel experience is exceptional, in and throughout the facility, and is positively sustained in a safe, secure airport environment.

The Authority will continue to develop programs and the infrastructure that will create future opportunities for our island and our communities throughout our region. Over $200 million in capital improvement projects are currently underway, under procurement, or in the design phases. These projects are focused on enhancing the safety and security of the community and the traveling public, increase capacity, reduce airport noise, and generate or sustain air service to current or new

**E. Outlook for FY 2020, continued**

markets. Other priorities include workforce development to increase capacity and enhance the Authority's labor force while laying the foundation for succession planning.

The Authority will continue to exercise prudent financial management in carrying out its fiduciary responsibilities. In addition, it will continue to pay down its debt service while looking for ways to enhance its revenue streams and pursue other revenue generating opportunities, in order to sustain a favorably operating environment for our airline partners and other stakeholders.

***Capital Improvements***

As the pandemic eases, the Authority will proceed with its multiyear CIP program identified in its 2012 Master Plan update, and look to proceed with an update in 2020 that will include but not be limited to: 1) identifying near and long-term facility expansion and capital requirements; 2) identify standards of the "Next Generation Airport,"; 3) identify best practices to achieve optimal utilization of the airport facilities and environ; 4) a review of the Runway Protection Zone; 5) inclusion of a live-fire burn facility; and 6) other sustainability programs. There will also be a financing feasibility component that would be the basis for the financial plan to obtain funds for these projects.

In the meantime, the Authority will remain diligent in mitigating and minimizing the operational disruptions caused by the ongoing construction. The following are the CIP projects and their prospective status for FY 2020:

***Projects Currently Underway***

- *3rd Floor International Arrivals Concourse w/Seismic Upgrades.* The completion of this key project will allow the Authority a permanent solution to efficiently and effectively conform with an unfunded TSA-mandate issued in 2004 to separate departing TSA-screened passengers from non-TSA-screened arriving passengers. The total project completion is anticipated to be completed August 2020. This project also includes the seismic upgrades to the passenger terminal building's infrastructure in order to support the 3rd Floor International Arrivals Concourse. Sources of funding for this project include proceeds from the Series 2013 Bonds, capital improvement funds, and FAA entitlement grants to complete the estimated $122 million dollar project.

- *Security Screening Checkpoint.* The expansion of the TSA Security Screening Checkpoints in the passenger terminal building is expected to be completed by April 2020. Two

**E. Outlook for FY 2020, continued**

additional lanes with space for a 3rd lane are in the final stages of completion. This will provide throughput capacity of 300 passengers per hour to be screened with room for expansion. TSA is expected to provide equipment for the project with sources of funding coming from the capital improvement funds.

- *Aircraft Rescue and Firefighting Facility (ARFF).* The new ARFF facility is scheduled to be completed to be substantially completed in FY 2020 with a project completion date of November 2020. This $23.4 million project is funded in large part by $20.5 million in discretionary grant funds from the FAA that provides the Authority with a new state-of-the-art facility that will improve response time in the event of a crisis situation.

- *Runway 6L/24R Rehabilitation.* The first phase of this project is expected to proceed in the 2nd quarter of FY 2020. Phase Ia will provide much needed rehabilitation and reconstruction to over 1,550 linear feet covering 155,000 square feet of area at a cost of $11.015 million for areas constructed as early as 1953. Total project cost is estimated at approximately $20 million with 90% financed by the FAA and 10% matching funds from the Authority.

- *Residential Sound Solution Program (RSSP).* This project is an ongoing FAA program that allows the Authority to provide for noise mitigation of residences located within the 65db range. The program is subject to federal funding limitations. The Authority has completed the preliminary screening of 70 homes that are eligible for this program. They will proceed with updating its Noise Compatibility Program (NCP) which is a key component of the RSSP and in hopes of proceeding with the sound proofing of homes in the near future as funding becomes available by the FAA.

***Projects in the Procurement Process***

- *Airport Aprons & Taxiway Rehabilitation.* This project includes rehabilitating over 1.5 million square feet of the parking/apron areas and the Kilo taxiway in front of the terminal and airfield. The project will enable the Authority to maintain its capacity and to increase the safety and efficiency of aircraft and ground support equipment operations, personnel activities, passenger movements, and airport servicing. The total project costs are estimated at $46 million. 90% of the project is anticipated to be funded using discretionary grants from the FAA with the remaining 10% financed using funds from the Authority.

- *Cargo Apron/Fuel System Extension.* This project includes constructing a cargo apron and connecting taxiway and extending the Airport's fuel system to service the Integrated Air

**E. Outlook for FY 2020, continued**

Cargo Facility located approximately one-half mile west of the air terminal. The Authority is currently negotiating fee proposals for the design. 90% of the project is anticipated to be funded using discretionary grants from the FAA with the remaining 10% financed using funds from the Authority.

***Projects in Planning Process***

- *Parking Facilities.* The Authority intends to construct a single-level parking deck over the existing commercial vehicle area to replace lost parking capacity resulting from the expansion of Route 10A, the Airport Access Road.

- *IT Upgrades.* The Authority intends to make upgrades to its Information Technology and Financial Management systems and related infrastructure improvements.

- *Passenger Terminal Improvements.* The Authority intends to make certain improvements to the passenger terminal building, including: 1) replacement of flooring in portions of the passenger terminal; 2) enclosure of the arrivals tunnel and installation of a climate control system to expand arrivals lobby area and add commercial space; 3) expand canopies on the departure area curbside; and 4) replace aging terminal seating and install additional seating in the passenger terminal building.

- *Replacement of the Conveyance Systems.* The Authority intends to replace aging elevators, escalators and moving walkways with more energy efficient equipment.

- *Replacement of Terminal Roofing System:* The Authority intends to replace and improve the terminal area roof membrane that is not connected to the 3rd Floor International Arrivals Corridor for more energy efficiencies and cost savings.

The Authority will continue to work closely with other intra-government agencies to develop infrastructure that runs through and around the airport, necessary to increase island capacity and throughput. These projects include:

- *Tiyan Parkway (Phase II).* This project requires close coordination with the Department of Public Works (DPW) and the Department of Land Management to acquire and develop property for a major thoroughfare that would alleviate major congestion of Guam's roadway systems of Route 1, 8 and 16.

- *Expansion of Route 10A (Airport Access Road).* This project is being coordinated with DPW that would expand Route 10A and provide for airport by-pass roadway system to increase capacity and facilitate traffic more efficiently.

**E. Outlook for FY 2020, continued**

- *Landscaping of Major Thoroughfares.* This project would entail the landscaping of Route 10A and the Tiyan Parkway to provide a scenic corridor that would lead intuitively to the A.B. Won Pat International Airport, Guam.

- *Stormwater Runoff and Drainage Improvements.* Part of the construction of the Tiyan Parkway will include the construction of a major ponding basin to manage storm water runoff from the Parkway as well as the Authority's storm water runoff. Moreover, it will replace existing drainage systems away from the Authority's runways and off of its Airport Operations Area.

- *Guam Waterworks Authority (GWA) Issues.* The Authority is working closely with GWA to coordinate the following while preventing any of violation of the Quitclaim deed for the transfer of properties from the federal government, its bond covenants under the 2013 Bond Issuance, and the grant assurances to the respective governmental agencies, mainly the FAA: 1) the transfer of property to allow GWA to proceed with its court ordered mandate for the installation of a two-million gallon tank to service their Tamuning-Tumon-Harmon customers; and 2) the installation of water infrastructure to include transmission and distribution lines and wastewater systems for residents located in the former Naval Air Station Hagatna Officer Housing area. This would provide the Authority the ability to cap and seal the existing infrastructure used for the transmission and distribution of water that is located beneath GIAA's primary runway without disrupting services to residences located in this area.

- *Guam Spaceport.* The Authority has been working closely with Virgin Orbit ant the FAA to establish the Airport as a US Spaceport. This would provide space exploration companies like Virgin Orbit, horizontal air launch capabilities for its orbital satellites. Guam's position near the equator makes it an ideal location for an equatorial launch site which is more efficient and cost effective for these types of operations. The Authority is working towards obtaining its license to operate as a spaceport, which has distinct operating parameters extremely different from that of a standard airport.

The Authority is constantly looking for interested investors to explore development of Guam's only commercial airport, through public private partnerships. The Authority's financing models would allow potential PPP partners to amortize their capital outlay, realize a return on their investments, and provide beneficial occupancy over the life of the lease for their organization or its end users.

**E. Outlook for FY 2020, continued**

***Air Service Development***

The Authority processed 3.6 million passengers through its facility in FY 2019, a feat they had hope to surpass in FY 2020 before the Corona Pandemic hit. The air service incentives as well as the "Team Guam" approach which is comprised of the Authority's management team along with industry partners from the Guam Visitors' Bureau and the Guam Economic Development Authority yielded positive results in maintaining and increasing air service from existing and new markets. The Authority was anticipating several increases in air service for FY 2020 including service to Muan, Korea 1x daily adding 1,302 seats weekly and access to an additional 1.9 million potential travelers from this market. Based on the Authority's Signatory Airlines budgetary projections for FY 2020, enplanements were expected to grow by 4% from 1.88 million enplanements in FY 2019 to 1.96 million year-over-year.

This was consistent with the 4.0% growth industry wide projected by the International Air Transport Association (IATA) based on their 2020 outlook published in December 2019. In addition, the IATA report reflects a positive outlook for 2020 as disruptions from geopolitical issues dissipate and a fear of global recession recedes, due in large part to optimistic global growth in gross domestic product (GDP). Moreover, stable oil prices of $63/barrel for Brent crude through 2020 bodes for a more favorable operating environment for airlines. This is promising for many airlines and the industry, with IATA projecting another year of profitability for the 11$^{th}$ consecutive year.

Asian carriers will continue to have higher demand for seats but yields will be much less than that of US or European airlines. Asian airlines profit margins are expected to be $3.30, per passenger (which may be attributed to the proliferation of Low-Cost Carriers in the region) versus the $16.0 for US carriers and $6.40 for European carriers respectively.

While the Corona Pandemic has temporarily impacted these projections, the IATA report is very encouraging for the Authority as Guam continues to be a very popular destination for Asian travelers, especially as a beach destination by travelers from Korea and Japan. The Authority will continue to work with its airline partners and the "Team Guam" approach to continue to develop business and tourism opportunities for Guam.

In the near term, the Authority will work closely with its airline partners to mitigate the impacts of the Corona Pandemic. According to an IATA report published March 24, 2020, the revenue impacts from the Pandemic owing to the severity of travel restrictions and the expected global recession, is projected to be an unprecedented $252 billion loss industry wide, approximately 44% below 2019's production. Asian carriers are expected to be hit the hardest with projections of $88 billion in losses. For Guam, the impacts of this apocalyptic outbreak are unprecedented, even with

**E. Outlook for FY 2020, continued**

the natural disasters we've faced or the impact of the 9/11 attacks. Airline activity into the island is near a standstill at 90% with only two flights operating daily. Airlines are seeking relief and the Authority has granted a 100% rebate on landing and apron parking fees effective April through June 2020. The Authority will consider other courses of action once the Pandemic is over and can quantify the financial impacts to assist its airlines and other partners in recovering from this worldwide crisis.

Prior to the Pandemic, the following table (Table 2) reflects some of the proposed air service increases for FY 2020 by the Authority's airline partners:

**TABLE 2: AIR SERVICE INCREASES FOR FY 2020**

| AIRLINE<br>O&D STATION | CURRENT | NEW | EFFECTIVE<br>DATE (S) | ADDED WEEKLY<br>SEAT CAPACITY |
|---|---|---|---|---|
| United Airlines | | | | |
| Osaka (KIX) | 7x weekly | 10x weekly | 12/10/19 | 465 |
| Nagoya (NGO) | 11x weekly | 14x weekly | 10/28/19 | 465 |
| Saipan (SPN) | 9x weekly | 10x weekly | 12/10/19 | 155 |
| | | | Weekly Seats: | 1,085 |
| Philippine Airlines | | | | |
| Manila (MNL) | 7x weekly | 9x weekly<br>(2 flights by PAL Express) | 3/1/20 | 398 |
| | | | Weekly Seats: | 1,085 |
| Jeju Airlines | | | | |
| Nagoya (NGO) | 0 | 3x weekly | 1/12/20 – 4/4/20 | 558 |
| Fukuoka (FUK) | 0 | 7x weekly | 12/28/19 – 4/4/20 | 1,302 |
| *Muan (MWX) | 0 | 7x weekly | 12/24/19 – 3/7/20 | 1,302 |
| Winter Charters | | | 12/5/19 – 1/9/20 | |
| **Nagoya (NGO) | | 6 | | 1,134 |
| **Matsuyama (MYJ) | | 6 | | 1,134 |
| **Okayama (OKJ) | | 2 | | 378 |
| **Fukuoka (FUK) | | 2 | | 378 |
| **Narita (NRT) | | 6 | | 1,134 |
| **New Chitose Airport (CTS) | | 4 | | 756 |
| | | | Weekly Seats: | 8,076 |
| Air Seoul | | | | |
| Seoul (ICN) | 7x weekly | 9x weekly | 10/1/19 – 10/26/19 | 1,560 |
| | | | Weekly Seats: | 1,560 |
| Jin Air | | | | |
| Busan (PUS) | 7x weekly | 14x weekly | 12/26/19 | 1,036 |
| Seoul (ICN) | 7x weekly | 14x weekly | 12/2/19 – 3/1/20 | 1,036 |
| Seoul (ICN) (2) Upgauge of Aircraft for 1x daily | 1x weekly (B737-800) | 1x weekly (B777-200) | 12/2/19 through | 1,491 |
| | | | Weekly Seats: | 1,560 |

*New destination
**Seasonal charter

**E. Outlook for FY 2020, continued**

***Financial Results***

The Authority began FY 2020 on a positive note by achieving $18.4 million in debt service savings through FY 2021, through the $37 million refunding of its Series A & B General Revenue Bonds in October 2019. By reducing its interest rate from 6% to 3.5% on these general revenue bonds, the Authority positioned itself to move forward with various capital improvement projects that will enhance its services, as well as safety and security at the airport. More importantly, the debt service savings and cash flow relief provide the Authority the ability to access close to $100 million in federal funding for eligible projects like the runway rehabilitation, and the taxiway and apron rehabilitation projects. In hindsight, the refunding may also alleviate some of the burden the Corona Pandemic has on the operational expenses for the Authority for FY 2020.

Nevertheless, the response received from the financial markets for the Authority's refunding action is an indication of the confidence investors have in the Authority's ability to repay its debt service. This was reflected in the credit ratings issued by S&P and Moody's who assigned stable outlooks with BBB+ and Baa2 ratings respectively to the bond sale. The Authority looks to improve, or at the very least, maintain its annual credit ratings in FY 2020 by continuing to exercise sound financial management that will provide the best financial posture with respect to its financial performance, debt and liability capacities, strong liquidity position and financial flexibility. The Authority is looking to complete a Financial Milestone Plan by June 2020 that would provide a balance between sustaining credit ratings and maintaining its debt service coverage required by the respective bond covenants, while providing for maximum financial support of its operational requirements.

Considering the myriad of ongoing construction projects under its CIP program, the Authority remains committed to minimizing operation disruptions and impacts due to the Corona Pandemic. The Authority is keenly aware that these impacts may result in a higher CPE for FY 2020 but is working to mitigate the disruptions and maintain the current range of $17-$18 per enplaned passenger.

The 2019 Series A & B General Revenue bond refunding is projected to reduce the Authority's debt service from $23.9 million to $13.9 million for FY 2020. The debt service savings projects a strong DSC of 2.03x in FY 2020, which is sufficient coverage over the 1.25x requirement under the respective Bond Covenants.

In terms of revised projections, the Authority is anticipating a 26% reduction in flight activity, with a correlating drop in enplanements of 28%, equal to approximately 555,378 passengers. The Authority is anticipating a 17% drop in forecasted revenues by $12.9 million, but does not expect this loss in revenues to affect its liquidity position. Some of the measures to reduce operating expenses during this Pandemic include, but not limited to the following:

**E. Outlook for FY 2020, continued**

- Carry forward net revenue from October 2019 through January 2020 of $3.1 million
- Implement a 5% O&M budget cut ($3.9 million in savings) through the end of FY'20
- Reduce terminal operations due to decreased flight activity
- Utilize $9 million from the 2019 Bond refunding if needed

More importantly, the Authority has taken several measures to ensure public health, reduce community spread and contain the virus on Guam, which is first and foremost, the primary objective during the Pandemic outbreak. While there are no anticipated reductions-in-force, a "non-essential" hiring freeze has been implemented, and non-essential employees have been mandated by the Governor of Guam via Executive Order to stay home through May 5, 2020.

The Authority's strategic approach in its fiduciary responsibilities will ensure they maintain and develop the infrastructure to support its operations, maintain its growth, protect its revenue streams, and seek opportunities for future airport development. Moreover, its keen understanding of its ethical and social obligations is paramount to the safety and security of the traveling public and all other airport stakeholders. By optimizing its ability to enhance its revenue streams, increase its capacity, and facilitate efficiencies, the Authority will continuously strive to provide a competitive cost structure and conducive business environment for its airline partners, airport users, tenants, and other stakeholders.

***Workforce Development***

As the caretakers of the island's key essential facility to its tourism-driven economy, the Authority is operationally sound, safe and secure. The Authority must maintain a core work force to maintain the daily operations of Guam's only commercial airport and is looking for ways to enhance its employee skills in support of succession planning. A comprehensive training plan is being developed to address and enhance key technical skills necessary to maintain a 24/7 operational facility. This plan is expected to be completed by June 2020.

The Authority is working to maximize local training resources and optimize training through the recently established Micronesia Training Center (MARTC), in collaboration with the Airports Council International (ACI). ACI is committed to providing industry specific training for airport personnel on Guam and throughout the region.

In addition, the Authority will be hosting the 2020 Aerodrome Symposium on Guam projected for July 2020. This symposium which is overseen by the FAA, will bring airport leaders and personnel from throughout Micronesia and the surrounding regions to listen to experts discuss the latest issues and developments impacting the aviation industry, share best management practices, and network with industry professionals and experts.

**E. Outlook for FY 2020, continued**

***Conclusion***

With more than $2.3 billion in direct, indirect or induced economic activity for our island community, the Authority is a key economic driver for Guam and the Micronesian region. As Guam and the rest of the world move toward recovery from the Corona Pandemic, the Authority will continue to develop Guam's only commercial airport, managing the ongoing CIP projects, minimize operational disruptions, and strive to maintain a superior level of airport services, safely, securely, efficiently and effectively. This will ensure the Authority remains a regional leader in aviation and major player in the Asia/Pacific region.

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

## Statements of Net Position

| | September 30, 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Unrestricted assets: | | |
| Cash *(Note 3)* | $ 2,264,110 | $ 630,783 |
| Passenger facility charge cash *(Note 3)* | 69,019 | 2,601 |
| Accounts receivable, trade, net of allowance for doubtful accounts of $635,766 at September 30, 2019 ($1,455,681 at September 30, 2018) (Note 3) | 5,833,123 | 6,879,825 |
| Accounts receivable from tenant *(Notes 3 and 9)* | 129,600 | 129,600 |
| Passenger facility charge receivables *(Note 3)* | 964,618 | 1,420,524 |
| Receivables from the United States Government | 134,334 | 541,478 |
| Inventory and other | 364,597 | 567,236 |
| Current portion of note receivable from tenant, net of allowance for doubtful accounts of $337,640 at September 30, 2018 | --- | 183,580 |
| Total unrestricted current assets | 9,759,401 | 10,355,627 |
| Restricted assets: | | |
| Customs fees, cash *(Note 3)* | 274,773 | 14 |
| Customs fees, receivables *(Note 12)* | 1,607,081 | 2,289,918 |
| Total restricted current assets | 1,881,854 | 2,289,932 |
| Total current assets | 11,641,255 | 12,645,559 |
| Accounts receivable from tenant, unrestricted *(Notes 3 and 9)* | 507,600 | 637,200 |
| General Revenue Bonds *(Note 7)* | | |
| Investments and cash with trustees, unrestricted | 91,231,195 | 85,449,399 |
| Investments and cash with trustees, restricted | 39,266,254 | 63,351,017 |
| | 130,497,449 | 148,800,416 |
| Depreciable capital assets, net *(Notes 4 and 11)* | 265,084,340 | 288,953,643 |
| Non-depreciable capital assets *(Notes 4 and 11)* | 181,469,370 | 143,588,374 |
| Avigation easements *(Note 4)* | 7,845,350 | 9,121,529 |
| **Deferred outflows of resources:** | | |
| Pension *(Note 8)* | 4,597,034 | 3,794,526 |
| Other postemployment benefits *(Note 8)* | 13,379,839 | 4,323,359 |
| Total deferred outflows of resources | 17,976,873 | 8,117,885 |
| Total assets and deferred outflows of resources | 615,022,237 | 611,864,606 |

*See accompanying notes.*

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

## Statements of Net Position, continued

| | September 30, 2019 | 2018 |
|---|---|---|
| **Liabilities** | | |
| Current liabilities: | | |
| Payable from unrestricted assets: | | |
| Accounts payable - trade | $ 4,524,016 | $ 3,866,222 |
| Accounts payable - construction | 10,998,824 | 11,200,853 |
| Other liabilities *(Note 11)* | 5,038,022 | 4,651,520 |
| Security deposits | 2,319,707 | 2,434,277 |
| Current portion of annual leave *(Note 10)* | 407,129 | 433,858 |
| Current portion of long-term loan payable to bank *(Notes 6 and 10)* | 1,255,257 | 1,185,279 |
| Total payable from unrestricted assets | 24,542,955 | 23,772,009 |
| Payable from restricted assets: | | |
| Customs fees payable to Treasurer of Guam *(Note 12)* | 2,037,979 | 2,448,259 |
| General Revenue Bonds: | | |
| Current installments *(Notes 5 and 10)* | 12,605,000 | 12,010,000 |
| Accrued interest | 5,634,000 | 5,934,250 |
| Total payable from restricted assets | 20,276,979 | 20,392,509 |
| Total current liabilities | 44,819,934 | 44,164,518 |
| Non-current liabilities: | | |
| Payable from unrestricted assets: | | |
| Accrued sick leave *(Notes 8 and 10)* | 148,110 | 185,143 |
| Long-term portion of annual leave *(Note 10)* | 831,129 | 872,202 |
| Long-term loan payable to bank *(Notes 6 and 10)* | 4,793,384 | 5,999,752 |
| Net pension liability *(Notes 8 and 10)* | 33,826,304 | 32,118,582 |
| Collective total other postemployment benefit liability *(Notes 8 and 10)* | 45,048,838 | 46,614,484 |
| Payable from restricted assets: | | |
| Long-term bonds payable, less current installments: | | |
| General Revenue Bonds *(Notes 5 and 10)* | 181,908,408 | 194,669,374 |
| Total non-current liabilities | 266,556,173 | 280,459,537 |
| Total liabilities | 311,376,107 | 324,624,055 |
| **Deferred inflows of resources:** | | |
| Deferred differences on refunding of 2013 bonds *(Note 5)* | 117,061 | 172,676 |
| Pension *(Note 8)* | 898,574 | 1,464,826 |
| Other postemployment benefits *(Note 8)* | 17,869,987 | 4,114,765 |
| Total deferred inflows of resources | 18,885,622 | 5,752,267 |
| Commitments and contingencies *(Notes 5, 6, 9 and 11)* | | |
| **Net position:** | | |
| Net investment in capital assets | 253,719,950 | 227,626,465 |
| Restricted for: | | |
| Capital projects *(Notes 4 and 11)* | 39,266,254 | 63,351,017 |
| Debt service *(Notes 5 and 7)* | ( 5,634,000 ) | ( 5,934,250 ) |
| Unrestricted | ( 2,591,696 ) | ( 3,554,948 ) |
| Total net position | $ 284,760,508 | $ 281,488,284 |

*See accompanying notes.*

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

## Statements of Revenues, Expenses and Changes in Net Position

| | Year ended September 30, 2019 | 2018 |
|---|---|---|
| Revenues *(Note 5)* : | | |
| Facilities and systems usage charges *(Note 3)* | $ 31,342,258 | $ 28,306,092 |
| Concession fees *(Notes 3 and 9)* | 22,222,181 | 23,043,383 |
| Rental income *(Note 9)* | 12,821,451 | 12,008,558 |
| Miscellaneous | 2,566,926 | 5,571,796 |
| | 68,952,816 | 68,929,829 |
| Operating costs and expenses: | | |
| Contractual services *(Notes 9 and 11)* | 25,529,980 | 27,672,687 |
| Personnel services | 18,131,872 | 13,884,736 |
| Materials and supplies | 1,236,583 | 1,187,924 |
| Total operating costs and expenses | 44,898,435 | 42,745,347 |
| Income from operations before depreciation and amortization | 24,054,381 | 26,184,482 |
| Depreciation and amortization | ( 28,071,895 ) | ( 28,017,440 ) |
| Operating loss | ( 4,017,514 ) | ( 1,832,958 ) |
| Non-operating revenues (expenses): | | |
| Passenger facility charge income | 7,362,377 | 7,081,113 |
| Interest income | 2,472,916 | 2,077,360 |
| Grants from the United States Government | 415,108 | 413,100 |
| Interest expense | ( 7,528,494 ) | ( 9,719,495 ) |
| Other expenses, net | ( 3,071,554 ) | ( 4,634,079 ) |
| Non-recurring expenses | ( 127,001 ) | ( 79,591 ) |
| Grant from Government of Guam - Office of Highway Safety (OHS) | --- | 11,368 |
| Total non-operating revenues (expenses), net | ( 476,648 ) | ( 4,850,224 ) |
| Loss before capital grants | ( 4,494,162 ) | ( 6,683,182 ) |
| Capital grants from the United States Government | 7,766,386 | 7,928,287 |
| Increase in net positon | 3,272,224 | 1,245,105 |
| Net position at beginning of year | 281,488,284 | 280,243,179 |
| Net position at end of year | $ 284,760,508 | $ 281,488,284 |

*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, 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from customers | $ 70,697,385 | $ 66,367,357 |
| Cash paid to suppliers for goods and services | ( 26,197,396 ) | ( 24,257,044 ) |
| Cash paid to employees | ( 17,897,745 ) | ( 17,823,297 ) |
| Other operating cash receipts | --- | 11,368 |
| Net cash provided by operating activities | 26,602,244 | 24,298,384 |
| **Cash flows from investing activities:** | | |
| Proceeds from sale of investments | 18,302,967 | 10,345,558 |
| Investment interest income | 2,472,916 | 2,077,360 |
| Collection from note receivable from tenant | 183,580 | --- |
| Cash provided by investing activities | 20,959,463 | 12,422,918 |
| **Cash flows from capital and related financing activities:** | | |
| Acquisition and construction of airport facilities and avigation easement | ( 36,636,789 ) | ( 39,067,166 ) |
| Principal payment on 2013 General Revenue Bonds | ( 12,221,581 ) | ( 11,660,882 ) |
| Interest paid on 2013 General Revenue Bonds | ( 11,568,250 ) | ( 12,154,250 ) |
| Principal payment on loan payable to bank | ( 1,136,390 ) | ( 1,119,201 ) |
| Interest paid on loan payable to bank | ( 431,114 ) | ( 448,303 ) |
| Passenger facility charge receipts | 7,818,283 | 6,708,495 |
| U.S. Government capital and operating grants | 8,588,638 | 17,283,186 |
| Net cash used in capital and related financing activities | ( 45,587,203 ) | ( 40,458,121 ) |
| Net increase (decrease) in cash | 1,974,504 | ( 3,736,819 ) |
| Cash at beginning of year | 633,398 | 4,370,217 |
| Cash at end of year | $ 2,607,902 | $ 633,398 |
| **Consisting of:** | | |
| Unrestricted | $ 2,333,129 | $ 633,384 |
| Restricted - current | 274,773 | 14 |
| | $ 2,607,902 | $ 633,398 |

*See accompanying notes.*

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

## Statements of Cash Flows, continued

| | Year ended September 30, 2019 | 2018 |
|---|---|---|
| **Reconciliation of operating loss and other expenses to net cash provided by operating activities:** | | |
| Operating loss | $( 4,017,514 ) | $( 1,832,958 ) |
| Other and non-recurring expenses | ( 3,198,555 ) | ( 4,702,302 ) |
| | ( 7,216,069 ) | ( 6,535,260 ) |
| Adjustments to reconcile operating loss and other expenses to net cash provided by operating activities: | | |
| Depreciation and amortization | 28,071,895 | 28,017,440 |
| Non-cash OPEB cost | 3,686,372 | 3,766,228 |
| Non-cash pension costs | 3,846,965 | 32,426 |
| Loss on disposal of assets | --- | 1,119,786 |
| (Increase) decrease in assets: | | |
| Accounts receivable | 1,729,539 | ( 1,442,787 ) |
| Inventory and other | 202,639 | ( 50,461 ) |
| Accounts receivable from tenant | 129,600 | 129,600 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 45,485 | 3,760,211 |
| Other current liabilities | 386,502 | 1,149,947 |
| Security deposits and unearned income | ( 114,570 ) | ( 1,249,285 ) |
| Annual leave | ( 67,802 ) | 51,390 |
| Sick leave | ( 37,033 ) | ( 439,010 ) |
| Collective total OPEB liability | ( 553,276 ) | ( 428,474 ) |
| Net pension liability | ( 3,508,003 ) | ( 3,583,367 ) |
| Total adjustments | 33,818,313 | 30,833,644 |
| Net cash provided by operating activities | $ 26,602,244 | $ 24,298,384 |

*See accompanying notes.*

## 1. Organization and Summary of Accounting Policies

### Organization

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

### Basis of Accounting

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

### 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*

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

*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, 2019 and 2018 is expendable.

**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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Bond Premium and Discount**

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

**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.

**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.

**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.

**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.

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

**Other Post-employment Benefits**

Other post-employment benefits (OPEB) are required to be recognized and disclosed using the accrual basis of accounting. The Authority recognizes a collective total OPEB liability for the OPEB plan in which it participates, which represents the Authority's proportionate share of collective total OPEB liability (actuarially calculated) measured as of the fiscal year end. Changes in the collective total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. As required by GASB Statements No. 68, 71, 73 and 75, the Authority reports deferred outflows of resources for pension-related and OPEB-related amounts: payments since the measurement date, changes in assumptions, and for differences 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, 73 and 75, the Authority reports deferred inflows of resources for pension-related and OPEB-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.

**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. Air carriers collect PFC's from passengers on behalf of the Authority at the time of air travel ticket issuance. The air carriers are responsible for all PFC funds from the time of collection to remittance to the Authority. In addition, the air carriers must provide quarterly reports to the Authority showing the total amounts of PFC revenues collected and refunded, as well as any amounts withheld by the air carrier as collection compensation. The completeness of the PFC receipts reflected in the quarterly schedule is the responsibility of the air carrier.

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

**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.

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

**Risk Management**

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

**Recently Adopted Accounting Pronouncements**

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance of this statement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

**Upcoming Accounting Pronouncements**

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

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

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB Statement No. 89 will be effective for fiscal year ending September 30, 2021.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. GASB Statement No. 90 will be effective for fiscal year ending September 30, 2020.

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

### Upcoming Accounting Pronouncements, continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB Statement No. 91 will be effective for fiscal year ending September 30, 2022.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. GASB Statement No. 92 will be effective for fiscal year ending September 30, 2020.

In April 2020, GASB issued Statement No. 93 Replacement of Interbank Offered Rates. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021.

The Authority is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

## 2. Subsequent Events

The Authority has evaluated subsequent events through April 23, 2020, which is also the date the financial statements were available to be issued.

In October 2019, the Authority issued and sold $37 million in refunding bonds at an interest rate of 3.5%. The proceeds from the refunding bonds was utilized to refund the Authority's Series A and B General Revenue Bonds.

### 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, 2019 and 2018, $250,000 of the Authority's deposits in each bank is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

A primary concessionaire accounted for 20% and 22% of total operating revenues for the years ended September 30, 2019 and 2018, respectively. Receivables from the primary concessionaire totaled $161,643 and $851,036 at September 30, 2019 and 2018, respectively.

For the years ended September 30, 2019 and 2018, approximately 22% and 20%, respectively, of the Authority's total operating revenues, including passenger facility charge income, were derived from one airline customer. At September 30, 2019 and 2018, the receivable from this airline customer totaled $1,964,690 and $2,604,140, 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, 2019 is as follows:

| | Beginning Balance October 1, 2018 | Additions | Transfers and Deletions | Ending Balance September 30, 2019 |
|---|---|---|---|---|
| Depreciable capital assets: | | | | |
| Terminal building | $409,971,229 | $ 194,482 | $ --- | $410,165,711 |
| Other buildings | 118,593,439 | 48,164 | 2,434,856 | 121,076,459 |
| Airfield area | 172,633,680 | --- | --- | 172,633,680 |
| Apron area | 28,632,976 | --- | --- | 28,632,976 |
| Terminal area | 24,748,708 | --- | --- | 24,748,708 |
| Support facilities | 10,154,424 | 32,069 | 216,842 | 10,403,335 |
| Total capital assets depreciated | 764,734,456 | 274,715 | 2,651,698 | 767,660,869 |
| Less accumulated depreciation | (475,780,813) | (26,586,357) | ( 209,359) | (502,576,529) |
| | $288,953,643 | $(26,311,642) | $ 2,442,339 | $265,084,340 |
| Non-depreciable capital assets: | | | | |
| Land | $ 61,832,623 | $ --- | $ --- | $ 61,832,623 |
| Construction-in-progress | 81,755,751 | 40,782,806 | (2,901,810) | 119,636,747 |
| | $143,588,374 | $ 40,782,806 | $(2,901,810) | $181,469,370 |

**4. Airport Facilities, continued**

A summary of changes in capital assets for the year ended September 30, 2018 is as follows:

| | Beginning Balance October 1, 2017 | Additions | Transfers and Deletions | Ending Balance September 30, 2018 |
|---|---|---|---|---|
| Depreciable capital assets: | | | | |
| Terminal building | $405,556,624 | $ 137,123 | $ 4,277,482 | $409,971,229 |
| Other buildings | 117,390,799 | 176,995 | 1,025,645 | 118,593,439 |
| Airfield area | 172,515,848 | 12,514 | 105,318 | 172,633,680 |
| Apron area | 28,632,976 | --- | --- | 28,632,976 |
| Terminal area | 24,748,708 | --- | --- | 24,748,708 |
| Support facilities | 10,154,424 | --- | --- | 10,154,424 |
| Total capital assets depreciated | 758,999,379 | 326,632 | 5,408,445 | 764,734,456 |
| Less accumulated depreciation | (449,039,550) | (26,741,263) | --- | (475,780,813) |
| | $309,959,829 | $(26,414,631) | $ 5,408,445 | $288,953,643 |
| Non-depreciable capital assets: | | | | |
| Land | $ 61,832,623 | $ --- | $ --- | $ 61,832,623 |
| Construction-in-progress | 46,946,137 | 41,337,844 | ( 6,528,230) | 81,755,751 |
| | $108,778,760 | $ 41,337,844 | $( 6,528,230) | $143,588,374 |

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, 2019 and 2018 included $1,089,285 and $404,785, respectively, of costs associated with the residential sound insulation program. At September 30, 2019 and 2018, the Authority's avigation easements (net of amortization) amounted to $7,845,350 and $9,121,529, respectively, and are shown as avigation easements in the accompanying statements of net position.

**4. Airport Facilities, continued**

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

Interest capitalized for the years ended September 30, 2019 and 2018 totaled $4,170,620 and $2,597,308, respectively.

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

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

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

Long-term revenue bonds payable at September 30, 2019 and 2018 consist of the following:

| | 2019 | 2018 |
|---|---|---|
| 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 $12,605,000 due in October 2019 | $192,695,000 | $204,705,000 |
| Less current installments | 12,605,000 | 12,010,000 |
| | 180,090,000 | 192,695,000 |
| Add net unamortized premium on bonds | 1,818,408 | 1,974,374 |
| | $181,908,408 | $194,669,374 |

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

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

| Year ending September 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 2020 | $ 12,605,000 | $ 10,952,875 | $ 23,557,875 |
| 2021 | 13,230,000 | 10,307,000 | 23,537,000 |
| 2022 | 13,885,000 | 9,629,125 | 23,514,125 |
| 2023 | 14,580,000 | 8,865,525 | 23,445,525 |
| 2024 | 15,415,000 | 8,008,625 | 23,423,625 |
| 2025-2029 | 18,675,000 | 35,146,375 | 53,821,375 |
| 2030-2034 | 25,060,000 | 28,569,213 | 53,629,213 |
| 2035-2039 | 33,700,000 | 19,643,084 | 53,343,084 |
| 2040-2044 | 45,545,000 | 7,420,822 | 52,965,822 |
| | $192,695,000 | $138,542,644 | $331,237,644 |

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) | 199,040,000 |
| | $247,335,000 |

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.

**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, 2019 and 2018, the unamortized balance of the difference in refunding totaled $117,061 and $172,676, respectively, as presented in the accompanying statements of net position.

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

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, 2019 and 2018 consists of the following:

| | 2019 | 2018 |
|---|---|---|
| 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 | $6,048,641 | $7,185,031 |
| Less current installments | 1,255,257 | 1,185,279 |
| | $4,793,384 | $5,999,752 |

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

On June 27, 2012, the Authority entered into 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, 2019 and 2018 amounted to approximately $1,136,390 and $1,119,201, 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:

| Year ending September 30, | |
|---|---|
| 2020 | $1,255,257 |
| 2021 | 1,329,000 |
| 2022 | 1,408,000 |
| 2023 | 1,491,000 |
| 2024 | 565,384 |
| | $6,048,641 |

**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, 2019 and 2018, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

| | 2019 | 2018 |
|---|---|---|
| Operations and Maintenance Reserve Fund | $ 12,381,319 | $ 12,381,104 |
| General Revenue Fund | 9,536,749 | 5,595,985 |
| Federal Grant Fund | 7,926,838 | 7,651,781 |
| Risk and Loss Management Reserve Fund | 6,612,148 | 6,498,133 |
| Capital Improvement Fund | 42,537,121 | 45,460,649 |
| Operations and Maintenance Fund | 12,237,020 | 7,861,747 |
| Total Unrestricted | 91,231,195 | 85,449,399 |
| Bond Reserve Fund | 19,686,112 | 19,212,257 |
| Debt Service Fund | 18,317,616 | 17,995,139 |
| Renewal and Replacement Fund | 1,000,249 | 1,000,249 |
| Construction Fund | 262,277 | 25,143,372 |
| Total Restricted | 39,266,254 | 63,351,017 |
| | $130,497,449 | $148,800,416 |

At September 30, 2019 and 2018, investments and cash held by trustees are comprised of the following:

| | 2019 | 2018 |
|---|---|---|
| Cash | $ 864,448 | $ 24,558,140 |
| Investments | 129,633,001 | 124,242,276 |
| | $130,497,449 | $148,800,416 |

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.

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

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Based on negotiated trust and custody contracts, all of these investments were held in the Authority's name by the Authority's custodial financial institutions at September 30, 2019 and 2018.

*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.

## 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, 2019 | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| Debt securities: | | | | |
| U.S. Treasury securities | $ 10,171,882 | $ 10,171,882 | $ --- | $ --- |
| Exchange traded products (ETP) - Fidelity Investments | 6,572,313 | 6,572,313 | --- | --- |
| Corporate bonds | 1,338,785 | --- | 1,338,785 | --- |
| Federal National Mortgage Association (FNMA) | 1,934,874 | --- | 1,934,874 | --- |
| Federal Home Loan Mortgage Corporation (FHLMC) | 2,260,712 | --- | 2,260,712 | --- |
| Total investments by fair value level | 22,278,566 | $ 16,744,195 | $ 5,534,371 | $ --- |
| Investments measured at the net asset value (NAV) | | | | |
| Money market funds (MMF) - Fidelity Investments | 70,494,440 | | | |
| MMF - US Bank, NA | 18,571,105 | | | |
| Investments measured at a cost based measure | | | | |
| Guaranteed Investment Contracts (GIC) - US Bank, NA | 9,549,194 | | | |
| Time certificates of deposit (TCD) | 8,739,696 | | | |
| | $ 129,633,001 | | | |

| | | At September 30, 2018 | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| Debt securities: | | | | |
| FHLMC | $ 2,973,962 | $ --- | $ 2,973,962 | $ --- |
| FNMA | 1,860,148 | --- | 1,860,148 | --- |
| U.S. Treasury securities | 9,976,138 | 9,976,138 | --- | --- |
| ETP - Fidelity Investments | 4,238,311 | 4,238,311 | --- | --- |
| Corporate bonds | 1,924,416 | --- | 1,924,416 | --- |
| Mutual funds - Fidelity Investments | 1,179,093 | 1,179,093 | --- | --- |
| Total investments by fair value level | 22,152,068 | $ 15,393,542 | $ 6,758,526 | $ --- |
| Investments measured at NAV | | | | |
| MMF - Fidelity Investments | 65,875,814 | | | |
| MMF - US Bank, NA | 18,010,488 | | | |
| Investments measured at a cost based measure | | | | |
| TCD | 8,654,712 | | | |
| GIC - US Bank, NA | 9,549,194 | | | |
| | $ 124,242,276 | | | |

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

The Authority's credit quality distribution for debt securities at September 30, 2019 and 2018 is as follows:

| At September 30, 2019 | | | At September 30, 2018 | | |
|---|---|---|---|---|---|
| | Standard & Poor's/Moody's Credit Rating | Amount | | Standard & Poor's/Moody's Credit Rating | Amount |
| FHLMC | Aaa/AAA | $ 2,260,712 | FHLMC | AA/Aaaa | $ 2,973,962 |
| FNMA | Aaa/AAA | 1,934,874 | FNMA | AA/Aaaa | 1,860,148 |
| Corporate bonds | Aaa/AAA | 8,001 | Corporate bonds | Aaa/AAA | 39,810 |
| Corporate bonds | Aa/AA | 319,366 | Corporate bonds | Aa/AA | 298,425 |
| Corporate bonds | A | 828,114 | Corporate bonds | A | 886,000 |
| Corporate bonds | Baa/BBB | 183,304 | Corporate bonds | Baa/BBB | 200,396 |
| GIC | Unrated | 9,549,194 | GIC | Unrated | 9,549,194 |
| | | | Corporate bonds | Ba | 499,785 |

At September 30, 2019 and 2018, the Authority had the following investments and maturities:

| | At September 30, 2019 | | | | |
|---|---|---|---|---|---|
| Investment type | Total | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| MMF | $ 89,065,545 | $ 89,065,545 | $ --- | $ --- | $ --- |
| U.S. Treasury securities | 10,171,882 | 7,118,456 | 3,053,426 | --- | --- |
| GIC | 9,549,194 | --- | 9,549,194 | --- | --- |
| TCD | 8,739,696 | 8,739,696 | --- | --- | --- |
| ETP | 6,572,313 | 6,572,313 | --- | --- | --- |
| FHLMC | 2,260,712 | 1,953,796 | 306,916 | --- | --- |
| FNMA | 1,934,874 | 1,885,358 | 49,516 | --- | --- |
| Corporate bonds | 1,338,785 | 375,975 | 930,602 | 32,208 | --- |
| | $ 129,633,001 | $ 115,711,139 | $ 13,889,654 | $ 32,208 | $ --- |

| | At September 30, 2018 | | | | |
|---|---|---|---|---|---|
| Investment type | Total | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| MMF | $ 83,886,302 | $ 83,886,302 | $ --- | $ --- | $ --- |
| FHLMC | 2,973,962 | 2,877,373 | 96,589 | --- | --- |
| TCD | 8,654,712 | 8,654,712 | --- | --- | --- |
| FNMA | 1,860,148 | --- | 1,860,148 | --- | --- |
| U.S. Treasury securities | 9,976,138 | 2,037,830 | 7,938,308 | --- | --- |
| GIC | 9,549,194 | --- | --- | 9,549,194 | --- |
| ETP | 4,238,311 | 4,238,311 | --- | --- | --- |
| Corporate bonds | 1,924,416 | 778,011 | 1,146,405 | --- | --- |
| Mutual funds | 1,179,093 | 1,179,093 | --- | --- | --- |
| | $ 124,242,276 | $ 103,651,632 | $ 11,041,450 | $ 9,549,194 | $ --- |

**8. Employee Benefits**

*General Pension Plan Descriptions*

Defined Benefit 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. The Government of Guam Retirement Fund (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.

The Guam Retirement Security Plan (GRSP) is the primary retirement plan for new employees beginning January 1, 2018, unless the employee elects to participate in the DCRS within 60 days of the employee's hire date. Certain existing and reemployed employees are also provided limited opportunity to participate in the GRSP. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 6.2% of the employee's base salary. The employer makes matching contributions at the same rate of 6.2% of the employee's base salary.

In September 2016, Public Law 33-186 was enacted to create two benefits under the DB Plan. Beginning January 2018, the DB 1.75 Plan and GRSP are to become the primary retirement systems for all new hires. Members of the DB 1.75 Plan also automatically participate in the GovGuam deferred compensation plan, pursuant to which employees are required to contribute 1% of base salary as a pre-tax mandatory contribution.

The DB Plan is administered by the GGRF, to which The Authority contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

*Membership*: Employees of the Authority hired before September 30, 1995 are under the Government of Guam Employees Retirement System, the DB Plan. 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 1.75 Plan is open for participation by certain existing employees, new employees and reemployed employees who would otherwise participate in the DCRS or the new GRSP and who make election on a voluntary basis to participate in the DB 1.75 plan by December 31, 2017.

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

The Authority's statutory contribution rates were 26.56% and 27.83%, respectively, for the years ended September 30, 2019 and 2018. Employees are required to contribute 9.5% of their annual pay for the years ended September 30, 2019 and 2018.

**8. Employee Benefits, continued**

*General Pension Plan Descriptions, continued*

Defined Benefit Plan (DB Plan), continued

*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.

*Actuarial Assumptions:* The actuarial assumptions used are based upon recommendations from the actuarial experience study for the period October 1, 2011 through September 30, 2015. A summary of actuarial assumptions applied to all periods included in the measurement is shown below.

| | |
|---|---|
| Actuarial cost method: | Entry age normal |
| Valuation of assets: | 3-year phase in of gain/losses relative to interest rate assumption. |
| Investment income: | 7.0% per year |
| Total payroll growth: | 2.75% |
| Salary increases: | Graduated based on service with the GovGuam ranging from 4.0% for service in excess of 20 years to 7.5% for service from zero to five years. |
| Disability: | 1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and 75% for females. |
| Retirement age: | 50% of probability of retirement at earliest age of eligibility for unreduced retirement benefits; 20% per year thereafter until age 75, 100% at age 75. |
| Return of contributions: | 100% withdrawing before retirement with less than 20 years of service assumed to elect a return of contributions. All those who have previously withdrawn assumed to elect a return of contributions. Contributions earn 4.5% interest. |
| Mortality: | Based on the RP-2000 combined mortality table, set forward 3 years for males and 2 years for females. |
| Amortization method: | Level percentage of payroll, closed |
| Remaining amortization period: | At September 30, 2019, the remaining period is 15.58 years. |

**8. Employee Benefits, continued**

*General Pension Plan Descriptions, continued*

Defined Benefit Plan (DB Plan), continued

*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.

*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 1.5 years in the 2014 valuation, at 1.4 in the 2015 actuarial valuation, at 1.3 years in the 2016 actuarial valuation, at 1.0 in the 2017 actuarial valuation and 3.1 years in the 2018 actuarial valuation. The amortization period is calculated as the weighted average of expected remaining service lives assuming zero years for all inactive members.

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

| Asset Class | Target Asset Allocation | Expected Nominal Return | Component Return |
|---|---|---|---|
| U.S. Equities (large cap) | 29% | 7.47% | 2.17% |
| U.S. Equities (small cap) | 7% | 8.73% | 0.61% |
| Non-U.S. Equities | 16.5% | 9.27% | 1.53% |
| Non-U.S. Equities (emerging markets) | 2% | 11.09% | 0.22% |
| U.S. Fixed Income (aggregate) | 21.5% | 4.67% | 1.00% |
| Risk Parity | 8% | 6.50% | 0.52% |
| High Yield Bonds | 8% | 6.59% | 0.53% |
| Global Real Estate (REITs) | 5% | 8.60% | 0.43% |
| Master Limited Partnerships | 3% | 6.56% | 0.20% |
| Expected average return for one year | | | 7.21% |
| Expected geometric mean (30 years) | | | 6.69% |

**8. Employee Benefits, continued**

*General Pension Plan Descriptions, continued*

Defined Benefit Plan (DB Plan), continued

The assumption used in the actuarial valuation (7.0%) is slightly higher than the expected geometric average return over the next 30 years. If the investments do not return the expected results, future pension expense will increase.

Ad Hoc COLA/Supplemental Annuity (COLA/SA) Plan for DB Participants

Members of the DB Plan also receive ad hoc cost of living allowance and supplemental annuity benefits that are appropriated yearly by the Guam Legislature. Those benefits are deemed to be substantively automatic, requiring reporting under GASB Statement No. 73. The Ad Hoc COLA/SA Plan for DB Participants is a single-employer plan. A single actuarial valuation is performed annually covering all plan members. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the Ad Hoc COLA/SA Plan for DB Participants. 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.

*Membership:* The plan membership is the same as the DB Plan described above.

*Benefits:* The supplemental annuity is an amount which, when added to a retiree's annuity increase the annual annuity to $40,000.

The COLA payment is $2,000 per DB retiree.

*Contribution:* The Authority's contribution to the supplemental annuity portion of the Plan, when added to a retiree's annuity, increases the annual annuity to $40,000.

The Authority's contribution to the COLA payment of the Plan is $2,000 per DB retiree.

**8. Employee Benefits, continued**

*General Pension Plan Descriptions, continued*

Ad Hoc COLA/Supplemental Annuity (COLA/SA) Plan for DB Participants, continued

*Actuarial Assumptions:* The actuarial assumptions used are based upon recommendations from the actuarial experience study for the period October 1, 2011 through September 30, 2015. A summary of actuarial assumptions applied to all periods included in the measurement is shown below.

| | |
|---|---|
| Actuarial cost method: | Entry age normal |
| Total payroll growth: | 2.75% |
| Salary increases: | Graduated based on service with the GovGuam ranging from 4.0% for service in excess of 20 years to 7.5% for service from zero to five years. |
| Disability: | 1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and 75% for females. |
| Retirement age: | 50% of probability of retirement at earliest age of eligibility for unreduced retirement benefits; 20% per year thereafter until age 75, 100% at age 75. |
| Mortality: | Based on the RP-2000 combined mortality table, set forward 3 years for males and 2 years for females. |
| Amortization method: | Level percentage of payroll, closed. |
| Remaining amortization period: | At September 30, 2019, the remaining period is 15.58 years. |

*Discount Rate:* The discount rate used to measure the Ad Hoc COLA/SA was a municipal bond rate of 4.18% and 3.64% for the years ended September 30, 2019 and 2018, respectively. This rate was used as the benefits are not funded with the accumulation of assets; they have been funded historically through appropriations from the Government of Guam.

*Expected Remaining Service Lives:* The expected remaining service life is the same as that used in the DB Plan.

Ad Hoc COLA Plan for Defined Contribution Retirement System (DCRS) Participant

The DCRS is administered by the GGRF. Members of DCRS receive ad hoc cost of living allowance (COLA) that are appropriated yearly by the Guam Legislature. Those benefits are deemed to be substantively automatic, requiring reporting under GASB Statement No. 73. The Ad Hoc COLA Plan for DCRS Participants is a single-employer plan. A single actuarial valuation is performed annually covering all plan members. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the Ad Hoc COLA Plan for DCRS Participants. 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.

**8. Employee Benefits, continued**

*General Pension Plan Descriptions, continued*

Ad Hoc COLA Plan for DCRS Participant. continued

*Membership:* Employees hired after September 30, 1995, are members of the DCRS.

*Benefits:* Ad Hoc COLA Plan for DCRS participants are the same as those for DB Participants.

*Contributions:* The Authority's contribution to the COLA payment of the Plan is $2,000 per DCRS retiree.

*Actuarial Assumptions:* The actuarial assumptions used are based upon recommendations from the actuarial experience study for the period October 1, 2011 through September 30, 2015. A summary of actuarial assumptions applied to all periods included in the measurement is shown below.

| | |
|---|---|
| Actuarial cost method: | Entry age normal |
| Total payroll growth: | 2.75% |
| Salary increases: | Graduated based on service with the GovGuam ranging from 4.0% for service in excess of 20 years to 7.5% for service from zero to five years. |
| Disability: | 1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and 75% for females. |
| Retirement age: | 5% per year from age 55 to 64, 10% per year from age 65 to 74, 100% at age 75. |
| Mortality: | Based on the RP-2000 combined mortality table, set forward 3 years for males and 2 years for females. |
| Amortization method: | Level percentage of payroll, closed. |
| Remaining amortization period: | At September 30, 2019, the remaining period is 15.58 years. |

*Discount Rate:* The discount rate is the same as that used in the Ad Hoc COLA/SA Plan for DB Participants.

*Expected Remaining Service Lives:* The expected remaining service life is the same as that used in the DB Plan.

**8. Employee Benefits, continued**

*Pension Liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions.*

Net pension liability at the fiscal years presented for the aforementioned plans were measured on and was determined by actuarial valuations as of the following dates:

| | | |
|---|---|---|
| Reporting Date: | September 30, 2019 | September 30, 2018 |
| Measurement Date: | September 30, 2018 | September 30, 2017 |
| Valuation Date: | September 30, 2017 | September 30, 2016 |

Net pension liability as of September 30, 2019 and 2018 for the aforementioned plans are as follows:

| | 2019 | 2018 |
|---|---|---|
| DB Plan | $29,987,434 | $28,053,913 |
| Ad hoc COLA/SA Plan for DB Participants | 2,785,670 | 2,698,911 |
| Ad hoc COLA Plan for DCRS Participants | 1,053,200 | 1,365,758 |
| | $33,826,304 | $32,118,582 |

Proportionate share of net pension liabilities at September 30, 2019 and 2018 for the aforementioned plans are as follows:

| | 2019 | 2018 |
|---|---|---|
| DB Plan | 2.54% | 2.46% |
| Ad hoc COLA/SA Plan for DB Participants | 0.96% | 0.94% |
| Ad hoc COLA Plan for DCRS Participants | 2.13% | 2.19% |

## 8. Employee Benefits, continued

*Pension Liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions, continued*

Pension expense for the years ended September 30, 2019 and 2018 for the aforementioned Plans are as follows:

| | 2019 | 2018 |
|---|---|---|
| DB Plan | $3,791,058 | $(937,980) |
| Ad hoc COLA/SA Plan for DB Participants | 328,834 | 847,148 |
| Ad hoc COLA Plan for DCRS Participants | ( 272,927) | 123,258 |
| | $3,846,965 | $ 32,426 |

As of September 30, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | DB Plan | | COLA/SA Plan for DB Participants | | COLA Plan for DCRS Participants | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | $ --- | $ --- | $ --- | $ --- | $ 151,318 | $( 9,625 ) |
| Net difference between projected and actual earnings on pension plan investments | --- | ( 537,580 ) | --- | --- | --- | --- |
| Authority contributions subsequent to the measurement date | 3,106,326 | --- | 215,570 | --- | 40,000 | --- |
| Changes in assumption | --- | --- | --- | ( 92,458 ) | 125,436 | ( 140,570 ) |
| Changes in proportion and difference between the Authority contributions and proportionate share of contributions | 791,446 | --- | 88,734 | --- | 78,205 | ( 118,341 ) |
| | $ 3,897,772 | $( 537,580 ) | $ 304,304 | $( 92,458 ) | $ 394,959 | $( 268,536 ) |

| | September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | DB Plan | | COLA/SA Plan for DB Participants | | COLA Plan for DCRS Participants | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | $ --- | $ --- | $ --- | $ --- | $ 62,054 | $( 10,609 ) |
| Net difference between projected and actual earnings on pension plan investments | --- | ( 1,363,384 ) | --- | --- | --- | --- |
| Authority contributions subsequent to the measurement date | 2,242,956 | --- | 226,046 | --- | 38,000 | --- |
| Changes in assumption | --- | --- | --- | --- | 137,937 | ( 90,833 ) |
| Changes in proportion and difference between the Authority contributions and proportionate share of contributions | 18,990 | --- | 14,406 | --- | 85,415 | --- |
| | $ 2,261,946 | $( 1,363,384 ) | $ 240,452 | $ --- | $ 323,406 | $( 101,442 ) |

**8. Employee Benefits, continued**

*Pension Liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions, continued*

Deferred outflows of resources at September 30, 2019 and 2018, resulting from the Authority's employer contributions for the following plans are as follows:

| | 2019 | 2018 |
|---|---|---|
| DB Plan | $3,106,326 | $2,242,956 |
| Ad hoc COLA/SA Plan for DB Participants | 215,570 | 226,046 |
| Ad hoc COLA Plan for DCRS Participants | 40,000 | 38,000 |
| | $3,361,896 | $2,507,002 |

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | |
|---|---|
| 2020 | $782,228 |
| 2021 | (451,760) |
| 2022 | (256,036) |
| 2023 | 152,080 |
| 2024 | 12,472 |
| Thereafter | 97,581 |
| | $336,565 |

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

*Sensitivity analysis:* The following presents the net pension liability calculated using a discount rate that is one percentage point (1.0%) lower or 1% higher than the current rate:

DB Plan

| | 1% Decrease 6.00% | Current Discount Rate 7.00% | 1% Increase 8.00% |
|---|---|---|---|
| Net pension liability | $38,237,248 | $29,987,434 | $22,905,921 |

Ad Hoc COLA/SA for DB Participants

| | 1% Decrease 3.18% | Current Discount Rate 4.18% | 1% Increase 5.18% |
|---|---|---|---|
| Collective total pension liability | $3,047,424 | $2,785,670 | $2,559,438 |

**8. Employee Benefits, continued**

*Pension Liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions, continued*

Ad Hoc COLA for DCRS Participants

| | 1% Decrease 3.18% | Current Discount 4.18% | 1% Increase 5.18% |
|---|---|---|---|
| Collective total pension liability | $1,184,825 | $1,053,200 | $940,777 |

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

*DCRS*

The DCRS was created by Public Law 23-42:3 to provide an individual account retirement system for any person who is employed by the Government of Guam. Contributions into the DCRS, by members are based on an automatic deduction of 6.2% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions into the DCRS for the years ended September 30, 2019 and 2018 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 6.2% 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, 2019 and 2018, contributions made and amounts accrued under the DCRS amounted to $797,369 and $301,524, 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, 2019 and 2018, the Authority has accrued an estimated liability of $148,110 and $185,143, respectively. However, this amount is an estimate and actual payout could differ from those estimates.

**8. Employee Benefits, continued**

*Other Post-employment benefit (OPEB) plan*

*OPEB Plan Description*

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains an agent multiple employer defined benefit plan to provide certain post-retirement healthcare benefits to retirees who are members of the GGRF known as the GovGuam Group Health Insurance Program. GovGuam issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to the Government of Guam Department of Administration ITC Building Suite 224, 590 South Marine Corps Drive, Tamuning, Guam 96913, or by visiting doa.guam.gov.

*Membership:* All employees of the Authority who are members of the GGRF are members of the OPEB Plan.

*Contribution:* The Authority is invoiced a portion of the medical and dental premiums. Retirees are required to pay a portion of the medical and dental insurance premiums.

*Benefits:* GovGuam provides postemployment medical, dental and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only.

*Actuarial Assumptions:* A summary of actuarial assumptions applied to all periods included in the measurement is shown below:

| | |
|---|---|
| Inflation: | 2.75% |
| Healthcare cost trend rate (Non-Medicare): | 13.5% for 2019, 6.75% for 2020, decreasing 0.25% per year to an ultimate rate of 4.25% for 2030 and later years. |
| Healthcare cost trend rate (Medicare): | -25% for 2019, 6.75% for 2020, decreasing 0.25% per year to an ultimate rate of 4.25% for 2030 and later years. |
| Health retiree mortality rates: | RP-2000 Combined Health Mortality Table, set forward 3 years and 2 years for males and females, respectively, projected generationally using 30% of Scale BB. |
| Disabled retiree mortality rates: | RP-2000 Disabled Mortality Table, set forward 6 years and 4 years for males and females, respectively, projected generationally using 30% of Scale BB. |

**8. Employee Benefits, continued**

*OPEB plan, continued*

*OPEB Plan Description, continued*

*Discount Rate:* The discount rate used to measure the total OPEB liability was 4.18% and 3.63% for the years ended September 30, 2019 and 2018, respectively. The projection of cash flows used to determine the discount rate assumed that contributions will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefits of current plan members. Therefore, the municipal bond rate at each year end was applied to all periods to determine the total OPEB liability.

*Expected Remaining Service Lives:* Under GASB Statement No. 75, 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 6.02 years. The amortization period is calculated as the weighted average of expected remaining service lives assuming zero years for all inactive members.

*OPEB Liabilities, OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB.*

Total OPEB liability at the fiscal years presented for the OPEB Plan was measured on and was determined by actuarial valuations as of the following dates:

| | | |
|---|---|---|
| Reporting Date: | September 30, 2019 | September 30, 2018 |
| Measurement Date: | September 30, 2018 | September 30, 2017 |
| Valuation Date: | September 30, 2018 | September 30, 2016 |

Collective total OPEB liability as of September 30, 2019 and 2018 is $45,048,838 and $46,614,484, respectively.

Proportionate share of collective total OPEB liability at September 30, 2019 and 2018 is 2.40% and 1.92%, respectively.

OPEB expense for the years ended September 30, 2019 and 2018 is $3,686,372 and $3,766,228, respectively.

**8. Employee Benefits, continued**

*OPEB plan, continued*

*OPEB Liabilities, OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB, continued*

As of September 30, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | $ --- | $( 10,297,181 ) | $ --- | $ --- |
| Authority contributions subsequent to the measurement date | 502,180 | --- | 440,077 | --- |
| Changes in assumptions | 3,262,709 | ( 7,476,494 ) | 3,466,056 | ( 3,994,495 ) |
| Changes in proportion and difference between the Authority contributions and proportionate share of contributions | 9,614,950 | ( 96,312 ) | 417,226 | ( 120,270 ) |
| | $ 13,379,839 | $( 17,869,987 ) | $ 4,323,359 | $( 4,114,765 ) |

Deferred outflows of resources at September 30, 2019 and 2018, resulting from the Authority's employer contributions totaled $502,180 and $440,077, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | |
|---|---|
| 2020 | $( 813,665) |
| 2021 | ( 813,666) |
| 2022 | ( 813,665) |
| 2023 | (1,974,136) |
| 2024 | ( 577,196) |
| | $(4,992,328) |

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

*Sensitivity analysis:* The following presents the total OPEB liability calculated using a discount rate that is one percentage point (1.0%) lower or 1% higher than the current rate:

| | 1% Decrease 3.18% | Current Discount Rate 4.18% | 1% Increase 5.18% |
|---|---|---|---|
| Total OPEB Liability | $53,127,024 | $45,048,838 | $38,559,768 |

**8. Employee Benefits, continued**

*OPEB plan, continued*

*OPEB Liabilities, OPEB expense and deferred outflows resources and deferred inflows of resources related to OPEB, continued*

The following presents the total OPEB liability calculated using a healthcare cost trend rate that is one percentage point (1.0%) lower or 1% higher than the current rate:

| | 1% Decrease 3.50% | Current Rate 4.50% | 1% Increase 5.50% |
|---|---|---|---|
| Total OPEB Liability | $37,566,071 | $45,048,838 | $54,734,919 |

**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 Lotte Agreement, rental income from Lotte shall be the greater of the following:

1. $15,160,000 (the "minimum guarantee") for the main and future retail space, and $240,000 for arrivals retail space plus 1% of other gross revenues, or;

2. The sum of the on-site gross revenues multiplied by 30.1% for the main and future retail space, and 25.0% for the additional retail space.

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, 2019 and 2018, the Authority recorded rental income under the Lotte Agreement totaling $13,307,418 and $14,781,573, respectively, for use of the main rental space.

**9. Leases, continued**

Mediation Term Sheet and Addendum

In April 2018, the Authority and Lotte entered into mediation in an effort to resolve issues and disputes between them concerning impacts of the ongoing Terminal Building Structural Upgrade and Concourse Isolation Project ("Third Floor Project") at the Airport, the February 2 Orders and February 5 Judgment (see Note 11), which at that time had not been stayed, and the status of the Lotte Agreement, which at that time had been declared void in the DFS Specialty Retail Protest Litigation (see Note 11). As a result of the mediation, the Authority and Lotte entered into a Mediation Term Sheet ("MTS"). In the MTS, Lotte confirmed and reaffirmed its obligations under the Lotte Agreement and the Authority and Lotte agreed to negotiate in good faith any additional direct impacts to Lotte's operations as a result of the Third Floor Project.

Under the MTS, the Authority agreed to certain rent concessions under the Lotte Agreement as follows: the Authority agreed to waive $175,000 per month of Lotte's rent obligation commencing on May 1, 2018 for a period of twenty-four (24) months, with possible extension; the Authority agreed to waive the payment of Percentage Rent, if any, for the period of April 2018 through September 2018; the Authority agreed to lease to Lotte 4,000 square feet of warehouse space in the Main Terminal Building and to waive the payment of rent for a period of 18 months.

On December 19, 2018, the Authority and Lotte again entered into mediation to address issues and disputes relating to Lotte's legal fee reimbursement obligation and additional direct impacts to Lotte's operations as a result of the Third Floor Project that were not known at the time the Authority and Lotte negotiated the MTS. As a result of the December mediation, the Authority and Lotte entered into an addendum to the MTS dated January 4, 2019 ("MTS Addendum").

Under the MTS Addendum, the Authority agreed to waive the payment of Percentage Rent, if any, for the period of December 2018 through May 2019. The Authority and Lotte also agreed on a formula to calculate additional direct impacts (closure of space) as a result of the Third Floor Project, which would be deducted from Lotte's rent obligation in equal amounts for a 24-month period following completion of the construction or a lesser time period if construction is delayed. In November 2019, the Authority and Lotte agreed to total additional direct impacts in the amount of $611,368 to be deducted from Lotte's rent obligation for a period of 24 months beginning December 2019.

**9. Leases, continued**

Future minimum lease income under the Lotte Concession Agreement as of September 30, 2019 is as follows:

| Year ending September 30, | |
|---|---|
| 2020 | $13,934,999 |
| 2021 | 15,160,000 |
| 2022 | 15,160,000 |
| 2023 | 12,633,333 |
| Total future minimum lease income | $56,888,332 |

*Pac Air Properties, LLC*

The Authority and Pac Air Properties, LLC (Pac Air) have a lease agreement with an initial lease term of fifty (50) years beginning on February 22, 2008, with an option on the part of Pac Air to renew for an additional ten (10) years. In accordance with the agreement, Pac Air shall make agreed-upon capital improvements at a cost of no less than $25 million to the leased premises with an area of approximately 540,000 square feet. On the termination or expiration of the lease, capital improvements will be surrendered to the Authority. The lease agreement allowed for Pac Air to defer remittance of lease payments until September 1, 2014 whereupon the deferred rent is to be remitted to the Authority in equal monthly installments over the next ten (10) years at the same time and under the same conditions as the regular monthly rent payments. The monthly rent will escalate every five years until the end of the lease term. Starting September 1, 2019, monthly rent increased from $23,850 to $26,100.

For the years ended September 30, 2019 and 2018, the Authority accrued rental income totaling $288,450 and $286,200, respectively, and is included as a component of rental income in the accompanying statements of revenues, expenses and changes in net position. At September 30, 2019 and 2018, accrued rental receivable totaled $637,200 and $766,800, respectively, and is shown as accounts receivable from tenant in the accompanying statement of net position.

**9. Leases, continued**

*Pac Air Properties, LLC, continued*

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

| Year ending September 30, | |
|---|---|
| 2020 | $ 313,200 |
| 2021 | 313,200 |
| 2022 | 313,200 |
| 2023 | 313,200 |
| 2024 | 315,900 |
| 2025 - 2029 | 1,730,700 |
| 2030 - 2034 | 1,893,150 |
| 2035 - 2039 | 2,082,600 |
| 2040 - 2044 | 2,299,050 |
| 2045 - 2049 | 2,542,050 |
| 2050 - 2054 | 2,785,500 |
| 2055 - 2059 | 3,000,150 |
| Total future minimum lease income | $17,901,900 |

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

Rent expense for each of the years ended September 30, 2019 and 2018 totaled $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 for the year ending September 30, 2020 totals $923,400.

**9. Leases, continued**

*Pac Air Properties, LLC, continued*

On December 2010, the Authority entered into a sublease agreement with the Government of Guam's Customs and Quarantine Agency (GovGuam CQA) to lease 25,000 square feet of the aforementioned 32,500 square feet rental space for 5 years, with annual rental income of $1,024,200. Effective October 1, 2015, the sublease agreement was continued for an additional 5 years with annual rental of $780,000. Rental income for each of the years ended September 30, 2019 and 2018 totaled $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 for the year ending September 30, 2020 totals $780,000.

*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. On October 1, 2019, new but substantially similar Signatory Airline Operating Agreements and Terminal Building Leases (the "Airline Operating Agreements") went into effect with nine of the Authority's 11 passenger air carriers serving the Airport (the "Signatory Airlines"). The Authority is currently negotiating and expects to execute a new airline operating agreement with Philippine Airlines, which is currently operating on a month-to-month basis under the terms of its existing airline operating agreement that expired on September 30, 2016. Cebu Air Pacific suspended its operations on Guam on December 7, 2019. 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 during the period of September 2019 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, 2019 are as follows:

| Year ending September 30, | |
|---|---|
| 2020 | $ 5,562,000 |
| 2021 | 4,955,000 |
| 2022 | 4,534,000 |
| 2023 | 3,414,000 |
| 2024 | 3,419,000 |
| Thereafter | 3,083,000 |
| Total future minimum lease income | $24,967,000 |

## 10. Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal year 2019 is as follows:

| | Outstanding October 1, 2018 | Increases | Decreases | Outstanding September 30, 2019 | Current | Noncurrent |
|---|---|---|---|---|---|---|
| Accrued sick leave | $ 185,143 | $ --- | $ 37,033 | $ 148,110 | $ --- | $ 148,110 |
| Accrued annual leave | 1,306,060 | 1,064,451 | 1,132,253 | 1,238,258 | 407,129 | 831,129 |
| Loan payable to bank | 7,185,031 | --- | 1,136,390 | 6,048,641 | 1,255,257 | 4,793,384 |
| Net pension liability | 32,118,582 | 1,707,722 | --- | 33,826,304 | --- | 33,826,304 |
| Collective total other postemployment benefit liability | 46,614,484 | --- | 1,565,646 | 45,048,838 | --- | 45,048,838 |
| 2013 General revenue bonds | 206,679,374 | --- | 12,165,966 | 194,513,408 | 12,605,000 | 181,908,408 |
| | $294,088,674 | $2,772,173 | $16,037,288 | $280,823,559 | $14,267,386 | $266,556,173 |

A summary of changes in long-term liabilities during fiscal year 2018 is as follows:

| | Outstanding October 1, 2017 | Increases | Decreases | Outstanding September 30, 2018 | Current | Noncurrent restated |
|---|---|---|---|---|---|---|
| Accrued sick leave | $ 624,153 | $ --- | $ 439,010 | $ 185,143 | $ --- | $ 185,143 |
| Accrued annual leave | 1,254,670 | 1,121,782 | 1,070,392 | 1,306,060 | 433,858 | 872,202 |
| Loan payable to bank | 8,304,232 | --- | 1,119,201 | 7,185,031 | 1,185,279 | 5,999,752 |
| Net pension liability | 36,921,046 | --- | 4,802,464 | 32,118,582 | --- | 32,118,582 |
| Collective total other postemployment benefit liability | 48,343,156 | --- | 1,728,672 | 46,614,484 | --- | 46,614,484 |
| 2013 General revenue bonds | 218,275,059 | --- | 11,595,685 | 206,679,374 | 12,010,000 | 194,669,374 |
| | $313,722,316 | $1,121,782 | $20,755,424 | $294,088,674 | $13,629,137 | $280,459,537 |

## 11. Commitments and Contingencies

*Environmental Response Actions*

As discussed in Note 4, in September 2000, the Navy transferred 1,417 acres of property to the Authority and Government of Guam. In fiscal year 2001, the Navy paid the Authority $10,000,000 as a lump sum but not in accordance to the payment provisions of the Quitclaim Deed from the Navy. In exchange for the payment, the Authority and the Government of Guam apparently assumed obligations for specific environmental response actions addressing groundwater contamination even if the cost of the response actions exceeds the $10 million received from the Navy. The Authority's management has assisted in preparing a draft Decision Document (DD) for Operable Unit 3 (OU3) which is the groundwater located under the former Naval Air Station. The DD presents the selected remedy for OU3, which calls for extraction and treatment at Well NAS-1 and future wells, if necessary, and natural attenuation. The draft DD identifies the Navy as the lead agency for the cleanup with support agencies that include the Authority, Guam Environmental Protection Agency (GEPA) and the US EPA. The Navy, the Authority and GEPA are the authorized signatories for the DD.

The Authority's responsibilities under the Remedial Action are limited to groundwater sampling and testing as currently performed. A new task is for the Authority to conduct a 5 year review to ensure the remedial action continues to be protective of human health and the environment. In the near future, the ongoing sampling and testing requirements will be reduced or completely eliminated. A specific request to this effect has been sent to GEPA. The granular activated carbon (GAC) treatment provided under the Authority's new water system satisfies the GAC treatment component of future wells meeting the selected remedy. No further obligation of the Authority is required under the draft DD.

The long-term obligation to operate and maintain the facilities built under the remedial construction as well as the required sampling will be handled through a water system commercial agreement. As of September 30, 2014, the Authority estimated, based upon a weighted average probability of future cash outflows, that its pollution remediation obligations as called for under GASB No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* totaled $800,929. At September 30, 2019 and 2018, future pollution remediation and monitoring costs totaling $479,614 and $159,315, 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.

**11. Commitments and Contingencies, continued**

*Commitments*

The Authority has commitments totaling approximately $56.9 million under several construction contracts at September 30, 2019.

In addition, the Authority has commitments under other various contracts totaling approximately $11.3 million at September 30, 2019.

*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, 2019 and 2018, the balances in the Renewal and Replacement Fund and Risk and Loss Management Reserve Fund are $1 million and $5 million, respectively. The Authority has a catastrophic insurance policy with coverage up to $5 million as a supplement to the self-insurance.

*Government of Guam General Fund*

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

Notwithstanding the requirements of 5 G.C.A. § 22421, the Authority is prohibited by its 2013 General Revenue Bond Indentures (2013 Indentures) and federal law from transferring any funds from its operating surplus to the General Fund. Any diversion of the Authority's revenues under any formula will place the Authority in breach of the 2013 Indentures and will jeopardize ongoing and future federal funding, possibly even subjecting the Authority to millions of dollars in federal civil penalties. Accordingly, the Authority cannot transfer any of its revenues to the General Fund as directed by 5 G.C.A. § 22421 and no liability has been recorded for this contingency as of September 30, 2019 and 2018. This position has been supported by legal determinations, past and present.

During the year ended September 30, 2019, there was no substantive progress of discussions with the Executive and Legislative branches to repeal 5 GCA § 22421 or on the issue of the Government of Guam assessment.

The Authority recognizes that it is an instrumentality of the Government of Guam. The Authority may reimburse the Government of Guam for costs of services and contributions provided to the Authority subject to the standards of documentation as required by the FAA's Policy and Procedures Concerning the Use of Airport Revenue.

**11. Commitments and Contingencies, continued**

*Water System Infrastructure Upgrade*

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

Concurrent with the commissioning of the new airport water system, the Authority entered into an interim agreement with Guam Waterworks Authority (GWA) to operate and maintain the water system for a minimum of one year. GWA's system rates will be status quo during the interim period. To date, the agreement is in a holdover period.

A new water system commercial agreement is being negotiated between the Authority and GWA to account for operational and maintenance omissions and deficiencies and to improve repair and replacement procedures. The new agreement is expected to be executed during 2020. Other matters include real estate issues that will allow GWA the ability to expand the capacity of the water reservoirs. The Authority expects to approve GWA's proposal expansion.

*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. Specialty Retail Protest Litigation*

This matter involves three actions, which have been consolidated, relating to three protests lodged by DFS Guam L.P. ("DFS") relating to the Specialty Retail Concession RFP ("2012 RFP"), and denied by the Authority. Summary judgment motions were filed by the Authority and DFS. On February 2, 2018, in four separate Decisions and Orders, the court denied the Authority's motions and granted DFS's motion (the "February 2 Orders"). In its Decision and Order on DFS's motion ("DFS MSJ Order") and subsequent Judgment filed on February 5, 2018 ("February 5 Judgment"), the court voided the 2012 RFP and voided and set aside the May 18, 2013 Specialty Retail Concession Agreement ("Lotte Agreement") between the Authority and Lotte Duty Free Guam, LLC ("Lotte"). In addition, in the DFS MSJ Order, the court ordered the Authority to comply with the Guam Procurement Code and the Authority's enabling legislation if it wished to issue another specialty retail procurement; found that it is in the best interests of the public for Lotte to remain as the specialty retail concessionaire; and ordered the Authority to abide by the terms of the Lotte Agreement. The court also denied DFS's request for costs.

On July 16, 2018, the Court amended its DFS MSJ Order (the "Amended Order") and issued an Amended Judgment (the "Amended Judgment") voiding the 2012 RFP and voiding and setting aside the Lotte Agreement. The Court also stayed enforcement of the Amended Judgment pending the Authority's appeal.

**11. Commitments and Contingencies, continued**

*DFS Guam L.P. Specialty Retail Protest Litigation, continued*

With the stay in place pending appeal, the Lotte Agreement remains in place. The Authority has already appealed the Amended Judgment, and DFS filed a cross-appeal. Oral arguments were heard on July 9, 2019 and an opinion from the Supreme Court is pending. The Authority cannot predict with reasonable certainty the probability of a favorable or unfavorable outcome. The worst-case outcome for the Authority is if the Supreme Court affirms the Amended Judgment and voids the Lotte Agreement, putting in jeopardy the $15.1 million in annual rent received by the Authority under the Lotte Agreement. Although an unlikely result in light of what the Authority perceives as errors committed by the Court, the Authority is considering various remedial measures to mitigate this potential financial harm including the possibility of allowing Lotte to remain in the space for the remainder of the 10 year concession term. Additionally, if the Authority must issue a new solicitation for the specialty retail concession, the Authority expects to receive minimum annual guarantee (MAG) offers of no less than the MAG currently being paid by Lotte.

*DFS v. Lotte Tort Action*

In the *Specialty Retail Protest Litigation* against the Authority relating to the 2012 RFP, Lotte was also a named defendant. On September 1, 2015, the Court granted in part a motion to dismiss brought by Lotte. The Court dismissed DFS's Third, Sixth, Ninth, Twelfth, Fifteenth and Seventeenth causes of action brought under the Procurement Law against Lotte. The Court denied dismissal of DFS's tort claim against Lotte and severed that claim into a separate action, CV0943-14-01 and CV0094-15-01 (the "Tort Action"). The Court stayed the Tort Action pending decisions in DFS Protest Litigation actions.

The Authority is not a party to the Tort Action, but DFS has raised allegations and requested relief for permanent injunction prohibiting Lotte from taking any action under the Lotte Agreement with the Authority and prohibiting Lotte from submitting proposals for future RFPs. The Authority is currently considering various options with regard to the Tort Action.

*DFS Guam L.P. (DFS) Holdover Dispute*

The Authority and DFS are involved in ongoing disputes related to DFS's concession agreement with the Authority that expired in 2013. To recover damages caused by DFS's holdover under the DFS concession agreement, the Authority drew down $2.1million on DFS's security deposit in the form of an undivided letter of credit that DFS had provided to secure against breaches of its three concession agreements.

In 2014, DFS initiated the arbitration. In 2016, the arbitration panel awarded DFS $1.9 million in damages plus interest, costs, and attorney's fees. DFS also filed a separate action arising from this dispute pursuant to the Guam Government Claims Act, in which both parties have filed claims and counterclaims against each other alleging various breaches of contract. The Authority has moved to dismiss this action for failure to prosecute, which is still pending before the Superior Court.

**11. Commitments and Contingencies, continued**

*DFS Guam L.P. (DFS) Holdover Dispute, continued*

In December 2018, the Superior Court confirmed the arbitration award ("Confirmation Order"), which the Authority appealed. In January 2019, DFS demanded that the Authority immediately pay $2,237,522 due under the arbitration award plus interest to date. DFS also filed a motion seeking $240,000 in attorney fees and costs related to post-arbitral proceedings. The appeal is stayed pending a decision on DFS's motion to correct an error in the Confirmation Order.

In February 2020, the Authority filed a motion to reverse the Confirmation Order and vacate the arbitration award based on two recent opinions by the Supreme Court of Guam that were issued after the Confirmation Order. This motion is still pending before the Superior Court.

While the Authority believes that it will be successful in its motion to reverse the Confirmation Order and vacate the arbitration award and any appeal in this case, the range of loss in the event it must pay any judgment on the arbitration award is $1,854,528 to $3,373,216. The Authority will continue to vigorously defend against all claims but has recorded a provision for loss amounting to approximately $3.1 million as of September 30, 2019 and 2018, as a component of other current liabilities.

*DFS Sunshine Act Lawsuit*

On April 11, 2016, DFS filed a civil action under the Open Government Law and Sunshine Reform Act of 1999 against the Authority, its Executive Manager and its Directors in their respective official capacities ("Sunshine Act Lawsuit"). The Executive Manager and Directors were later dismissed from the case.

The Superior Court of Guam issued decisions and orders granting summary judgment in favor of DFS on its Fifth and Ninth causes of action for declaratory relief relating to the release of certain Authority Board executive session transcripts, denying DFS's Sixth and Tenth causes of action seeking an injunction ordering the Authority to turn over certain executive session transcripts, and dismissing DFS's remaining claims with prejudice as requested by DFS ("MSJ D&Os"). Judgment was issued on January 10, 2018, and the Authority appealed.

On January 25, 2018, DFS filed a Motion for Attorneys' Fees and Costs seeking recovery of $259,602 in attorneys' fees and costs. Following briefing and a hearing, on September 12, 2018, the court denied DFS's motion ("Attorneys' Fees Order"). On October 9, 2018, DFS appealed. Briefing will be complete by March, and oral argument is currently scheduled for July 9, 2019.

On June 12, 2019, the Supreme Court issued its Opinion in the Sunshine Act Lawsuit appeal ("June 12, 2019 Opinion") vacating the January 10 Judgment, reversing the MSJ D&Os and finding that executive session transcripts pertaining to pending litigation are exempt under the Sunshine Act. The Attorney's Fees appeal was briefed but was dismissed on July 1, 2019 in light of the June 12 Opinion issued in the Sunshine Act Lawsuit appeal.

**11. Commitments and Contingencies, continued**

*DFS Sunshine Act Lawsuit, continued*

Judgment consistent with the Supreme Court's opinion in the Sunshine Act Lawsuit appeal is pending from the Superior Court. Upon issuance of the Judgement, the Authority considers this matter concluded.

*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. At September 30, 2019 and 2018, $262,000 remained as unpaid obligation for inactive employees.

*Coronavirus*

On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization declared the novel coronavirus (COVID-19) outbreak as a "Public Health Emergency of International Concern." Due to continual spike in the number of COVID-19 cases in China, Japan, Korea and the Philippines, many flights to and from Guam have been suspended or reduced. Since the Authority's main business operations have a heavy dependency on visitors from Japan, Korea and the Philippines, it is reasonably possible that the Authority's financial position, results of operations, and/or cash flows will be adversely impacted. However, due to continued uncertainties surrounding the extent and duration of COVID-19 outbreak and its impact on the tourism-based economy of Guam, the Authority is unable at this time to reasonably estimate the potential future impact on its financial statements.

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

During the years ended September 30, 2019 and 2018, 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, 2019 and 2018, fees assessed to air carriers related to the aforementioned arrangement totaled approximately $13.8 and $12.7 million, respectively. For the years ended September 30, 2019 and 2018, remittances to the Treasurer of Guam related to the aforementioned arrangement totaled approximately $10.7 and $9.5 million, respectively. For the years ended September 30, 2019 and 2018, the Authority offset $3.5 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, 2019 and 2018, the Authority recorded customs fees payable to the Treasurer of Guam totaling $2,037,979 and $2,448,259, respectively, for the above charges, of which $1,607,081 and $2,289,918, 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
(A Component Unit of the Government of Guam)

## Schedule 1
## Required Supplementary Information
## Schedule of the Authority's Proportionate Share of Net Pension Liability

Defined Benefit Plan
(Unaudited)

Last 10 Fiscal Years*

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Authority's proportion of the net pension liability | 2.54% | 2.46% | 2.45% | 2.35% | 2.45% | 2.32% |
| Authority's proportionate share of the net pension liability | $ 29,987,434 | $ 28,053,913 | $ 33,532,175 | $ 32,241,435 | $ 30,570,481 | $ 30,256,332 |
| Authority's covered payroll | $ 13,099,014 | $ 13,253,631 | $ 13,107,529 | $ 13,353,696 | $ 12,788,348 | $ 12,883,180 |
| Authority's proportionate share of the net pension liability as a percentage of its covered payroll | 228.93% | 211.67% | 255.82% | 241.44% | 239.05% | 234.85% |
| Plan fiduciary net position as a percentage of total pension liability | 63.28% | 60.63% | 54.62% | 52.32% | 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
(A Component Unit of the Government of Guam)

## Schedule 2
## Required Supplementary Information
## Schedule of the Authority's Contributions

## Defined Benefit Plan
(Unaudited)

## Last 10 Fiscal Years

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Contractually required contributions | $ 3,106,326 | $ 2,242,956 | $ 2,966,912 | $ 3,060,666 | $ 3,178,277 | $ 3,297,500 | $ 2,857,688 | $ 2,405,802 | $ 2,372,679 | $ 2,241,150 |
| Contribution in relation to the contractually required contribution | 3,106,326 | 2,242,956 | 2,966,912 | 3,060,666 | 3,178,277 | 3,297,500 | 2,857,688 | 2,405,802 | 2,372,679 | 2,241,150 |
| Contribution excess | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Authority's covered payroll | $ 8,387,759 | $ 9,747,686 | $ 13,253,631 | $ 13,107,529 | $ 13,353,696 | $ 12,788,348 | $ 12,883,180 | $ 10,356,825 | $ 10,295,803 | $ 9,728,359 |
| Contribution as a percentage of the Authority's covered payroll | 37.03% | 23.01% | 22.39% | 23.35% | 23.80% | 25.79% | 22.18% | 23.23% | 23.05% | 23.04% |



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

Schedule 3
Required Supplementary Information
Schedule of the Authority's Proportionate Share of Collective Total Pension Liability

Ad Hoc COLA/Supplemental Annuity Plan for DB Participants
(Unaudited)

Last 10 Fiscal Years*

| | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Authority's proportionate share of the collective total pension liability | $ 2,785,670 | $ 2,698,911 | $ 2,086,977 | $ 2,034,619 |
| Authority's proportion of the collective total pension liability | 0.96% | 0.94% | 0.91% | 0.86% |

*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
(A Component Unit of the Government of Guam)

## Schedule 4
## Required Supplementary Information
## Schedule of the Authority's Contributions

## Ad Hoc COLA/Supplemental Annuity Plan for DB Participants
(Unaudited)

## Last 10 Fiscal Years

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Contractually required contributions | $ 215,570 | $ 226,046 | $ 224,018 | $ 218,041 | $ 214,041 | $ 198,678 | $ 150,712 | $ 168,354 | $ 133,356 | $ 163,798 |
| Contribution in relation to the contractually required contribution | 215,570 | 226,046 | 224,018 | 218,041 | 214,041 | 198,678 | 150,712 | 168,354 | 133,356 | 163,798 |
| Contribution excess | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |



Doc. No. 35GL-20-1733.*

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

Schedule 5
Required Supplementary Information
Schedule of the Authority's Proportionate Share of Collective Total Pension Liability

Ad Hoc COLA Plan for DCRS Participants
(Unaudited)

Last 10 Fiscal Years*

| | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Authority's proportionate share of the collective total pension liability | $ 1,053,200 | $ 1,365,758 | $ 1,301,894 | $ 1,043,706 |
| Authority's proportion of the collective total pension liability | 2.13% | 2.19% | 2.11% | 2.00% |

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

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

Schedule 6
Required Supplementary Information
Schedule of the Authority's Contributions

Ad Hoc COLA Plan for DCRS Participants
(Unaudited)

Last 10 Fiscal Years*

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|
| Contractually required contributions | $ 40,000 | $ 38,000 | $ 36,000 | $ 32,000 | $ 26,000 | $ 23,400 | $ 11,000 |
| Contribution in relation to the contractually required contribution | 40,000 | 38,000 | 36,000 | 32,000 | 26,000 | 23,400 | 11,000 |
| Contribution excess | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

*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
(A Component Unit of the Government of Guam)

Schedule 7
Required Supplementary Information
Schedule of the Authority's Proportionate Share of Collective Total Other Postemployment Benefit Liability
(Unaudited)

Last 10 Fiscal Years*

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Authority's proportion of the total collective other postemployment benefit liability | 2.40% | 1.92% | 1.91% |
| Authority's proportionate share of the collective total other postemployment benefit liability | $ 45,048,838 | $ 46,614,484 | $ 48,343,156 |

*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
(A Component Unit of the Government of Guam)

## Schedule 8
## Required Supplementary Information
## Schedule of the Authority's Contributions

## Other Postemployment Benefit Plan
(Unaudited)

## Last 10 Fiscal Years

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Contractually required contributions | $ 502,180 | $ 440,077 | $ 445,487 | $ 408,841 | $ 362,761 | $ 256,563 | $ 261,312 | $ 301,527 | $ 338,697 | $ 222,514 |
| Contribution in relation to the contractually required contribution | 502,180 | 440,077 | 445,487 | 408,841 | 362,761 | 256,563 | 261,312 | 301,527 | 338,697 | 222,514 |
| Contribution excess | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

# Note to Required Supplementary Information
(Unaudited)

*Changes of Assumptions – Pension Plans*

Amounts reported in 2018 actuarial valuation reflected an assumption related to administrative expenses to increase to $7,082,000 per year.

Amounts reported in 2017 actuarial valuation reflect a change in assumption of payroll growth to 2.75% rather than 3%. The mortality, retirement age and disability assumption were changed to more closely reflect actual experience. Assumption related to administrative expense reflected an increase to $6,344,000 per year and a revised allocation to the various pension plans to reflect actual experience.

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

Amounts reported in 2015 actuarial valuation 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 the 2011 actuarial valuation 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.



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# Supplementary and Other Information

Schedule 9
Facilities and Systems Usage Charges

| | 2019 | 2018 |
|---|---|---|
| Arrival facilities | $ 8,523,065 | $ 6,438,454 |
| Departure facilities | 8,347,101 | 6,559,487 |
| Passenger loading bridge usage charge | 5,674,620 | 6,895,713 |
| Landing | 3,529,497 | 3,855,235 |
| Immigration | 2,992,580 | 2,143,829 |
| Public apron | 1,434,721 | 1,599,047 |
| Utility recovery and other fees | 589,104 | 587,975 |
| Fuel flowage | 251,570 | 226,352 |
| | $ 31,342,258 | $ 28,306,092 |

Schedule 10
Concession Fees

| | 2019 | 2018 |
|---|---|---|
| General merchandise | $ 13,340,865 | $ 14,814,811 |
| Ground transportation | 4,054,755 | 3,509,509 |
| Car rental | 1,669,980 | 1,533,183 |
| Food and beverage | 1,084,172 | 1,021,361 |
| In-flight catering | 890,493 | 844,661 |
| Advertising | 413,531 | 422,895 |
| Other | 277,330 | 286,196 |
| Money exchange | 237,760 | 361,334 |
| Parking lot | 253,295 | 249,433 |
| | $ 22,222,181 | $ 23,043,383 |

Schedule 11
Rental Income

| | 2019 | 2018 |
|---|---|---|
| Operating space: | | |
| - Non-airline | $ 4,778,327 | $ 4,500,606 |
| - Airline | 4,268,780 | 3,839,952 |
| Building and maintenance shop rentals | 1,834,670 | 1,745,336 |
| Other | 1,656,908 | 1,650,350 |
| Cargo rentals | 282,766 | 272,314 |
| | $ 12,821,451 | $ 12,008,558 |

Schedule 12
Contractual Services

| | 2019 | 2018 |
|---|---|---|
| Repairs and maintenance | $ 7,892,655 | $ 7,397,088 |
| Professional services | 6,773,452 | 8,446,397 |
| Power | 6,266,316 | 6,092,037 |
| Miscellaneous | 2,234,746 | 3,339,953 |
| Advertising and promotions | 819,781 | 858,310 |
| Utilities and telephone | 677,472 | 683,985 |
| Insurance | 574,573 | 545,588 |
| Travel/training and certifications | 290,985 | 309,329 |
| | $ 25,529,980 | $ 27,672,687 |

Schedule 13
Personnel Services

| | 2019 | 2018 |
|---|---|---|
| Salaries and wages | $ 13,286,188 | $ 13,099,014 |
| Retirement contributions | 3,925,004 | ( 132,232 ) |
| Insurance | 920,680 | 917,954 |
| | $ 18,131,872 | $ 13,884,736 |
| Full-time employee count in September | 203 | 209 |

Schedule 14
Materials and Supplies

| | 2019 | 2018 |
|---|---|---|
| Equipment and vehicle maintenance and supplies | $ 482,914 | $ 401,927 |
| Office and security supplies | 359,696 | 230,454 |
| Electrical and plumbing | 182,526 | 219,974 |
| Miscellaneous | 132,588 | 207,726 |
| Building maintenance and supplies | 78,859 | 127,843 |
| | $ 1,236,583 | $ 1,187,924 |

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

Year ended September 30, 2019

## Schedule 15
## Insurance Coverage

| Name of Insurer | Policy | Risk Coverage |
|---|---|---|
| AIG/National Union Fire Insurance Company of Pittsburg, PA. | Airport Operations Liability | $ 500,000,000 |
| AIG/National Union Fire Insurance Company of Pittsburg, PA. | Property Insurance | $ 200,000,000 |
| AIG/National Union Fire Insurance Company of Pittsburg, PA. | Catastrophe Insurance | $ 5,000,000 |
| AIG/National Union Fire Insurance Company of Pittsburg, PA. | Directors & Officers Liability (Sublimit of $1,000,000 for Employment Practices Liability) | $ 4,000,000 |
| Dongbu Insurance Co., Ltd. Seoul, Korea | Automobile | $ 2,000,000 |
| Dongbu Insurance Co., Ltd. Seoul, Korea | 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
(A Component Unit of the Government of Guam)

Years ended September 30, 2019 and 2018

Schedule 16
Debit Service Computation

| | Year ended September 30, 2019 | 2018 |
|---|---|---|
| Net revenues | | |
| Revenues: | | |
| Operating revenues | $ 68,952,816 | $ 68,929,829 |
| Non-operating revenues: passenger facility charge income | 7,362,377 | 7,081,113 |
| Non-operating revenues: interest income | 2,472,913 | 2,077,360 |
| Non-operating revenues: grants from the United States Government | 415,108 | 413,100 |
| Capital grants from the United States | 7,766,386 | 7,928,287 |
| Non-operating revenues: grants from the Government of Guam | --- | 11,368 |
| Less: | | |
| Investment income from CIF related funds | ( 1,146,197 ) | ( 1,016,377 ) |
| Capital grants from the United States | ( 7,766,386 ) | ( 7,928,287 ) |
| Operation and maintenance expense | ( 44,898,430 ) | ( 42,745,347 ) |
| Other bookkeeping entries-noncash pension cost | 3,846,966 | 33,396 |
| Other bookkeeping entries-noncash OPEB cost | 3,686,372 | 3,766,228 |
| Actual contribution to GGRF | ( 3,361,896 ) | ( 3,475,724 ) |
| Actual contribution to DOA | ( 502,180 ) | ( 440,077 ) |
| Miscellaneous expenses | ( 3,071,555 ) | ( 4,635,049 ) |
| | $ 33,756,294 | $ 29,999,820 |
| Other available monies (lesser of amount in capital improvement fund or 25% of debt service fund) | | |
| Capital improvement fund | $ 42,537,121 | $ 45,460,649 |
| 25% of debt service | $ 5,968,250 | $ 5,969,625 |
| | $ 5,968,250 | $ 5,969,625 |
| Aggregate annual debt service | | |
| Sum of interest due during the year | $ 11,268,000 | $ 11,868,500 |
| Sum of principal due during the year | 12,605,000 | 12,010,000 |
| | $ 23,873,000 | $ 23,878,500 |
| Debt service ratio | | |
| Net revenues | $ 33,756,294 | $ 29,999,820 |
| Other available monies | 5,968,250 | 5,969,625 |
| | $ 39,724,544 | $ 35,969,445 |
| Divided by: aggregate annual debt service | $ 23,873,000 | $ 23,878,500 |
| | 1.66 | 1.51 |

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

Years ended September 30, 2019 and 2018

## Schedule 17
## Employee Data

| Department | Employees (a) | | Personnel Services (b) | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Board | 1 | 0 | $ 25,113 | $ 21,411 |
| Administration | 35 (c) | 35 (c) | 3,546,166 | 1,962,717 |
| Property Management | 10 | 11 | 909,658 | 761,859 |
| Accounting | 11 | 11 | 983,116 | 763,670 |
| Engineering | 10 | 10 | 891,757 | 745,743 |
| Operations | 21 | 22 | 1,864,848 | 1,529,520 |
| Properties & Facilities Maintenance | 36 | 37 | 2,613,216 | 2,105,923 |
| Airport Police | 46 | 47 | 4,108,500 | 3,338,500 |
| Aircraft Rescue Fire Fighting | 33 | 36 | 3,189,498 | 2,655,393 |
| Total | 203 | 209 | $ 18,131,872 | $ 13,884,736 |

Notes:

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

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

c. Administration consists of:

| | 2019 | 2018 |
|---|---|---|
| Executive management | 5 | 4 |
| Administrative support | 14 | 12 |
| Personnel | 3 | 5 |
| Marketing | 3 | 3 |
| Procurement | 5 | 6 |
| Management information system | 5 | 5 |
| | 35 | 35 |

*Compliance and Internal Control*

# Antonio B. Won Pat International Airport Authority, Guam

(A Component Unit of the Government of Guam)

*Year ended September 30, 2019*



Building a better working world

Doc. No. 35GL-20-1733.*

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

Reports on Compliance and Internal Control

Year ended September 30, 2019

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# Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Directors
Antonio B. Won Pat International Airport Authority, Guam

We have audited, 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, the financial statements of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2020.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

April 23, 2020

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# Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Management and the Board of Directors
Antonio B. Won Pat International Airport Authority, Guam

## Report on Compliance for Each Major Federal Program

We have audited the Antonio B. Won Pat International Airport Authority, Guam's (the Authority) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2019. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.



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***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended September 30, 2019.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance, and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be, material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be significant deficiency.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the Authority as of and for the year ended September 30, 2019, and have issued our report thereon dated April 23, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

April 23, 2020

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

| Grantor/Federal Department Program Title | CFDA No. | Expenditures |
|---|---|---|
| **U.S. Department of Transportation** | | |
| Airport Improvement Program | 20.106 | $ 7,766,386 |
| Total U.S. Department of Transportation | | 7,766,386 |
| **U.S. Department of Homeland Security** | | |
| National Explosives Detection Canine Team Program | 97.U02 | 239,908 |
| Law Enforcement Officer Reimbursement Agreement Program | 97.U03 | 175,200 |
| Total U.S. Department of Homeland Security | | 415,108 |
| Total Federal Awards Expended | | $ 8,181,494 |

*See accompanying notes.*

Notes to the Schedule of Expenditures of Federal Awards

Year Ended September 30, 2019

## 1. General

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. The Authority receives federal awards directly from federal agencies.

The program titles and Catalog of Federal Domestic Assistance (CFDA) numbers were obtained from the federal or pass-through grantor or the 2019 *Catalog of Federal Domestic Assistance*. When no CFDA number has been assigned to a program, the Authority uses a two-digit federal agency identifier followed by U and a two-digit number.

## 2. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Authority under programs of the federal government for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

## 3. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

*Indirect Cost Allocation*

The Authority has elected not to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414 of the Uniform Guidance. The Authority does not receive any indirect cost allocation and no indirect costs were recorded against any federal program for the year ended September 30, 2019.

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

# Schedule of Findings and Questioned Costs

Year ended September 30, 2019

## Section I - Summary of Auditor's Results

### Financial Statements

| | | | | |
|---|---|---|---|---|
| Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified | | | |
| Internal control over financial reporting: | | | | |
| Material weakness(es) identified? | | **Yes** | X | **No** |
| Significant deficiency(ies) identified? | | **Yes** | X | **None reported** |
| Noncompliance material to financial statements noted? | | **Yes** | X | **No** |

### Federal Awards

| | | | | |
|---|---|---|---|---|
| Internal control over major federal programs: | | | | |
| Material weakness(es) identified? | | **Yes** | X | **No** |
| Significant deficiency(ies) identified? | X | **Yes** | | **None reported** |
| Type of auditor's report issued on compliance for major federal programs: | Unmodified | | | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | X | **Yes** | | **No** |

*See accompanying notes.*

# Schedule of Findings and Questioned Costs, continued

## Section I - Summary of Auditor's Results, continued

Identification of major federal programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 20.106 | Airport Improvement Program |

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low risk auditee? ____ **Yes** X **No**

# Schedule of Findings and Questioned Costs, continued

## Section II - Financial Statement Findings

No matters were reported.

# Schedule of Findings and Questioned Costs, continued

## Section III - Federal Award Findings and Questioned Costs

Finding No.: 2019-001

Criteria

2 CFR 200.305(b)(3) specifies the use of the reimbursement payment method for construction or other construction activity. 2 CFR 200 *Appendix XI Compliance Supplement Part 3 Section 3.2 C. Cash Management* (the Compliance Supplement) further specifies that program costs must be paid by non-Federal entity funds before submitting a payment request.

Condition

We tested a total of 15 samples containing 24 reimbursement requests in auditing compliance with Cash Management.

Six out of the 24 reimbursement request, totaling approximately $380 thousand out of $6.6 million, were requested by the Authority prior to the Authority's actual payment to vendors for program costs. All six vendors were paid prior to the Authority receiving reimbursements from the Federal entity (the Federal Aviation Administration "FAA").

Cause

The Authority's review controls failed to detect that program costs were not paid prior to requesting for FAA reimbursement. Additionally, a written cash management procedure as required by 2 CFR 200.302 (b)(6) was not maintained and widely distributed to the Authority's process holders.

Effect or potential effect:

Continued noncompliance as outlined in the Compliance Supplement.

Recommendation

The Authority should modify current internal control procedures to effectively prevent the processing of reimbursement request prior to the payment of the program costs. Internal control procedures should be documented in writing and disseminated to all process holders to ensure compliance with federal requirements.

Views of responsible officials:

Management agrees. Please refer to the separate corrective action plan.

*Management Letter*

# Antonio B. Won Pat International Airport Authority, Guam

*Year ended September 30, 2019*



Building a better working world

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Fax: +1 671 649 3920
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April 23, 2020

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

In planning and performing our audit of the financial statements of the Antonio B. Won Pat International Airport Authority, Guam (the Authority) as of and for the year ended September 30, 2019, 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, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control and other matters that we wish to bring to your attention.

**Deficiencies**

During our audit, we noted the following deficiencies in internal control, as described above:

## Customs Fees

Condition:

Under Public Law 23-45, the Authority assesses and collects from air carriers, fees for customs and agricultural inspection services rendered at the terminal. The air carriers are required to remit these fees to the Authority within 30 days from assessment; otherwise a 10% interest should be levied to the air carrier. We noted that six out of 24 samples where customs fees were received late from signatory air carriers, but interest was not levied. We also noted that three of the 24 samples were not deposited within 5 days of receipt from the air carrier.



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**Deficiencies, continued**

Recommendation:

We recommend that the Authority ensure that all air carriers are billed the interest on late remittances. The Authority should continue its efforts to reduce or eliminate delays and remit collections from air carriers within five days of receipt in accordance with Public Law 23-45.

**Other Matters**

## Operating Procedures - Federal Awards

Condition:

The Authority has not formalized its documentation describing the operating procedures on recordkeeping over federal awards.

Recommendation:

The Authority should complete its efforts to collate the required documents into a formal draft, which should be reviewed and approved by appropriate personnel and made accessible to those that process federal awards. We encourage the Authority to prioritize completion of this project.

*******

This communication is intended solely for the information and use of management and the Board of Directors of the Authority, others within the organization, and the Guam Office of Public Accountability, and is not intended to be and should not be used by anyone other than these specified parties.

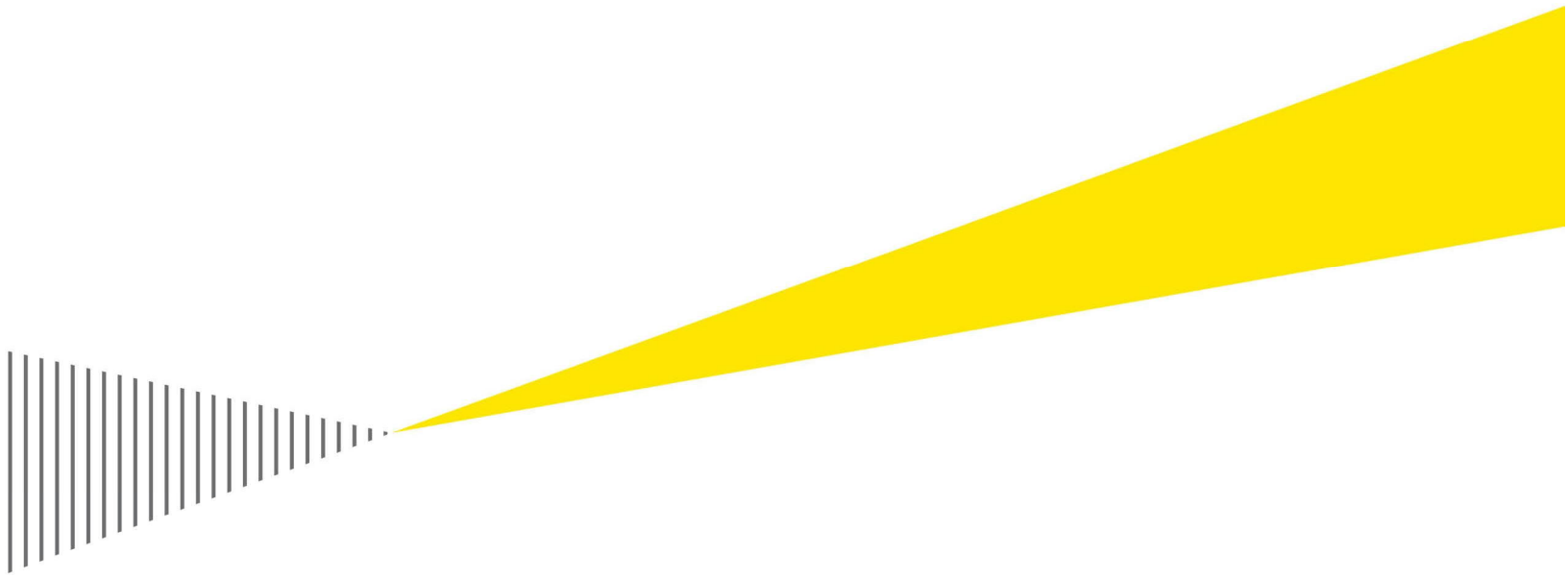
We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP

*The Auditor's Communication With Those Charged With Governance*

# Antonio B. Won Pat International Airport Authority, Guam

*Year ended September 30, 2019*



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Building a better working world

April 23, 2020

The Board of Directors
Antonio B. Won Pat International Airport Authority, Guam
P.O. Box 8770
Tamuning, Guam 96931

We have performed an audit of the financial statements of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), a component unit of the Government of Guam, as of and for the year ended September 30, 2019, 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, and have issued our report thereon dated April 23, 2020.

## REQUIRED COMMUNICATIONS

Professional standards require the auditor to provide the Board of Directors (the Board or those charged with governance) with additional information regarding the scope and results of the audit that may assist the Board (or those charged with governance) in overseeing the financial reporting and disclosure processes which the management of the Authority is responsible. We summarize these required communications as follows:

### Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS) and Generally Accepted Government Auditing Standards (GAGAS)

The financial statements are the responsibility of the Authority's management. Our audit was designed 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, to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting.



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**Auditors' Responsibilities under US GAAS and GAGAS, continued**

Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

As part of our audit, we considered the Authority's internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances.

As described in our engagement letter dated November 5, 2019, the objective of a financial statement audit performed in accordance with US GAAS and GAGAS is as follows:

1. To express an opinion on whether the basic financial statements of the Authority are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. To conduct an audit in accordance with the Single Audit Act Amendments of 1996 and the provisions of Title 2 U.S Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and will include tests of accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express an opinion on compliance for each major program and to render the required reports.

2. To provide a report on internal control over financial reporting related to the financial statements and compliance with laws, regulations and the provisions of contracts or grant agreements and other matters, noncompliance with which could have a material effect on the financial statements, as required by *Government Auditing Standards*. We did not perform sufficient procedures to render an opinion on internal control over financial reporting nor on compliance with provisions of laws**,** regulations, contracts or grant agreements and other matters, and therefore, we did not express such an opinion.

3. To report on the fairness of the schedule of expenditures of federal awards when considered in relation to the financial statements as a whole. We also will report on internal control related to major programs and provide an opinion on compliance with laws, regulations and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and the Uniform Guidance.

**The Adoption of, or a Change in Significant Accounting Policies**

We determined that the Board is informed about the initial selection of, and any changes in significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.

Effective October 1, 2018, the Authority implemented:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*

**Auditor's Judgments about the Quality of the Authority's Accounting Principles**

We discussed our judgments about the quality, not just the acceptability, of the Authority's accounting principles as applied in its financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.

**Sensitive Accounting Estimates**

Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.

We determined that the Board is informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Management's judgment is called upon in:

- Preparing budgets that are used to administer and monitor the Authority's operations. These budgets include determining how existing financial resources will be used in the Authority's operations.
- Determining the valuation of investments.
- Determining the adequacy of the recorded valuation of receivables, including the need for any reserve.
- Determining useful lives in the calculation of depreciation expense.
- Determining assumptions utilized in measuring pension and other employee-related reserves and related costs for financial accounting purposes.

**Material Corrected Misstatements**

As a result of our audit procedures, material misstatements were brought to the attention of management and were corrected during the current period (see Appendix A – *Summary of Corrected Misstatements*). During our audit, several post-closing journal entries were recorded while we were conducting our fieldwork.

**Uncorrected Misstatements Considered by Management to be Immaterial**

Certain uncorrected misstatements accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) were identified during the audit and pertaining to the latest period presented, which were determined by the Authority's management to be immaterial, both individually and in the aggregate, to the financial statements as a whole (see Appendix B – *Summary of Uncorrected Misstatements*).

**Other Information in Documents Containing the Audited Financial Statements**

We reviewed the Management's Discussion and Analysis and other supplementary schedules to the financial statements to ensure consistency with the audited financial statements.

**Consultation with Other Accountants**

We are not aware of any consultations that management may have had with other accountants regarding any significant auditing and accounting matters during the fiscal year ended September 30, 2019.

**Disagreements with Management on Financial Accounting and Reporting Matters**

There were no material disagreements with the Authority's management on financial accounting and reporting matters during the audit.

**Major Issues Discussed with Management Prior to Retention**

There were no major accounting issues discussed with the Authority's management prior to our retention.

**Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Issues**

We are not aware of any significant unusual transactions recorded by the Authority, or of any significant accounting policies used by the Authority related to controversial or emerging areas for which there is lack of authoritative guidance.

**Serious Difficulties Encountered in Dealing with Management in Performing the Audit**

There were no serious difficulties encountered in dealing with management in performing the audit.

**Fraud and Illegal Acts**

We are not aware of any matters that require communication. Furthermore, the Authority's management has represented to us that they were not aware of any fraud or illegal acts for the period from October 1, 2018 to April 23, 2020 (see Appendix C – *Management's Representation Letter*).

**Control Related Matters**

We did not identify any findings relating to the Authority's internal control over financial reporting.

We have identified a significant deficiency relating to the Authority's major federal award program and have communicated our findings in a separate report dated April 23, 2020.

We have communicated to management, in a separate letter also dated April 23, 2020, certain deficiencies and other matters related to the Authority's internal control over financial reporting that we identified during the audit.

Management's written responses to our comments have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

**Independence**

We are not aware of any relationships between Ernst & Young and our related entities, and the Authority, or any other matters that in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that we are independent with respect to the Authority within the meaning of the applicable published rules and pronouncements, its interpretations and rulings.

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

**********

This report is intended solely for the use of the Authority's board of directors and management, the Office of Public Accountability of Guam, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Very truly yours,

Ernst + Young LLP

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

# Appendix

A – Summary of Corrected Misstatements

B – Summary of Uncorrected Misstatements

C – Management's Representation Letters

A – Summary of Corrected Misstatements

**Communication schedule for corrected misstatements**

Entity: A.B. Won Pat International Airport Authority, Guam  Period ended: 30-Sep-2019  Currency: USD

| Corrected misstatements | | | Analysis of misstatements Debit/(Credit) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| No. | W/P ref. | Account | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Equity components | Effect on the current period OCI | Income statement effect of the current period | |
| | | (misstatements are recorded as journal entries with a description) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Non taxable |
| AJE-0 | P0600 | To adjust the OPEB balances based on the audited actuarial reports of KMS for Plan year ended September 30, 2018. | | | | | | | | |
| | | Deferred outflow of resources - OPEB | | 10,335,910 | | | | | | |
| | | Total collective OPEB liability | | | | 1,565,646 | | | | |
| | | Other expenses, net | | | | | | | 2,769,652 | |
| | | Deferred inflow of resources - OPEB | | | | (14,671,208) | | | | |
| AJE-0 | P0400 | To record the adjustment to pension amounts based on the September 30, 2018 audited pension schedules | | | | | | | | |
| | | Deferred inflow of resources - pension | | | | 60,698 | | | | |
| | | Personnel services: Pension Expense | | | | | | | (60,698) | |
| Total of corrected misstatements before income tax | | | 0 | 10,335,910 | 0 | (13,044,864) | 0 | 0 | 2,708,954 | |
| Financial statement amounts | | | 11,641,255 | 603,380,982 | (44,819,934) | (285,441,795) | (284,760,508) | | (3,272,224) | |
| Effect of corrected misstatements on F/S amounts | | | 0.0% | 1.7% | 0.0% | 4.6% | 0.0% | | -82.8% | |

Concurrence:
The above adjustments have been discussed with us and we agree to record them.

Thomas C. Ada, Executive Manager

John A. Kids, Comptroller

EY

EY Form 430GL

1 August 2018

B – Summary of Uncorrected Misstatements

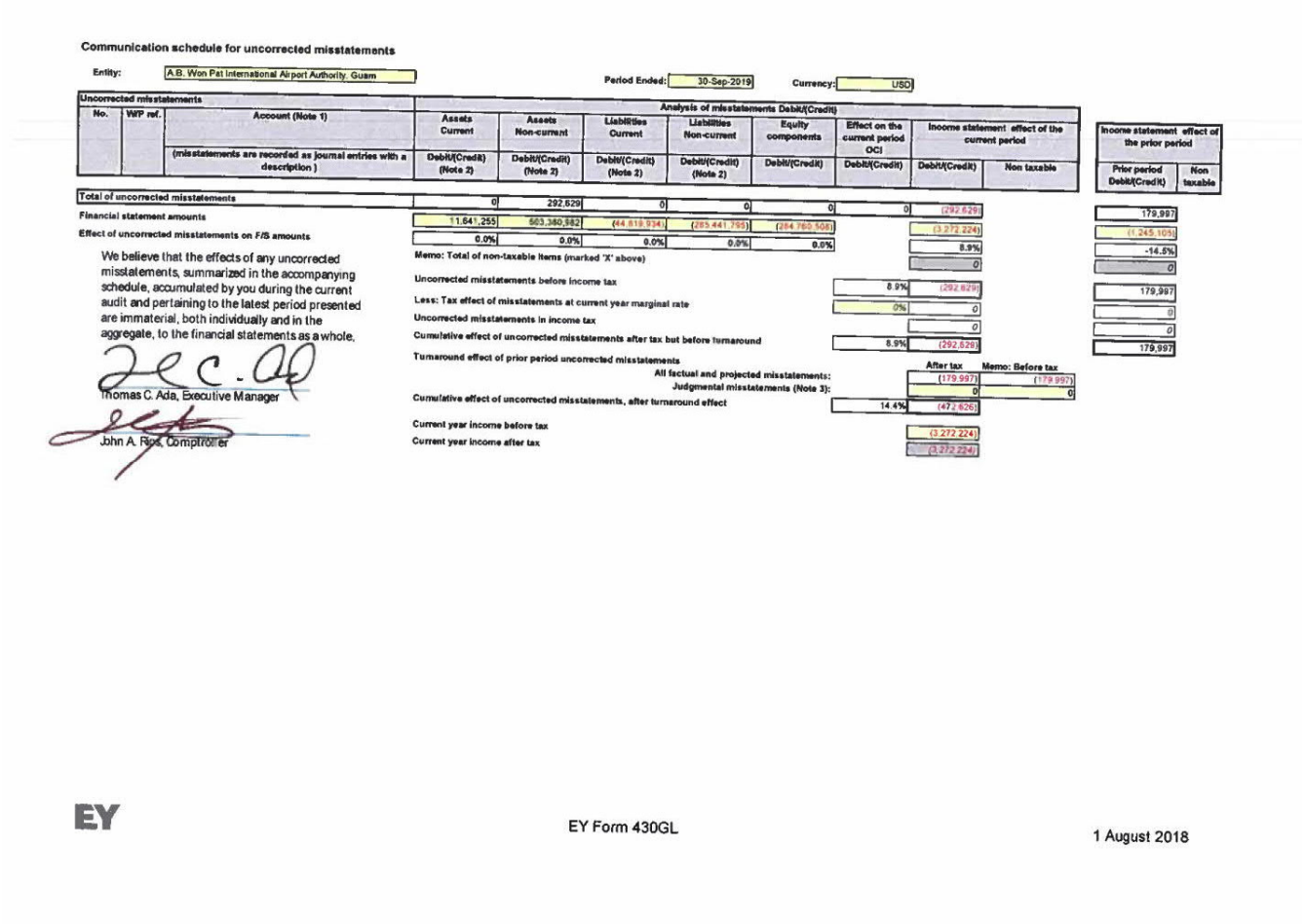
**Communication schedule for uncorrected misstatements**

Entity: A.B. Won Pat International Airport Authority, Guam | Period Ended: 30-Sep-2019 | Currency: USD

| Uncorrected misstatements | | | Analysis of misstatements Debit/(Credit) | | | | | | | | Income statement effect of the prior period | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| No. | W/P ref. | Account (Note 1) | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Equity components | Effect on the current period OCI | Income statement effect of the current period | | | |
| | | (misstatements are recorded as journal entries with a description ) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Non taxable | Prior period Debit/(Credit) | Non taxable |
| **Factual misstatements:** | | | | | | | | | | | | |
| PY SAD | | To correct the loan payable balance based on the amount confirmed by the bank. | | | | | | | | | | |
| | | Interest expense | | | | | | | | | 40,997 | |
| SAD 01 | K0121 | To record additional capitalized interest on CIP projects at September 30, 2019. | | | | | | | | | | |
| | | Non-depreciable capital assets | | 292,629 | | | | | | | | |
| | | Interest expense | | | | | | | (292,629) | | | |
| **Projected misstatements:** | | | | | | | | | | | | |
| PY SAD | | To consider the estimated impact of the difference in OPEB census per GovGuam and per the Authority | | | | | | | | | | |
| | | Other expesne | | | | | | | | | 139,000 | |
| **Total of uncorrected misstatements before income tax** | | | 0 | 292,629 | 0 | 0 | 0 | 0 | (292,629) | | 179,997 | |

EY | EY Form 430GL | 1 August 2018

B – Summary of Uncorrected Misstatements, continued



**Communication schedule for uncorrected misstatements**

Entity: A.B. Won Pat International Airport Authority, Guam | Period Ended: 30-Sep-2019 | Currency: USD

| Uncorrected misstatements | | | Analysis of misstatements Debit/(Credit) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| No. | WP ref. | Account (Note 1) | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Equity components | Effect on the current period OCI | Income statement effect of the current period | | Income statement effect of the prior period |
| | | (misstatements are recorded as journal entries with a description) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Non taxable | Prior period Debit/(Credit) | Non taxable |
| Total of uncorrected misstatements | | | 0 | 292,629 | 0 | 0 | 0 | 0 | (292,629) | | 179,997 | |
| Financial statement amounts | | | 11,641,255 | 663,380,882 | (44,819,934) | (285,441,795) | (284,760,508) | | (3,272,224) | | (1,245,105) | |
| Effect of uncorrected misstatements on F/S amounts | | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | | 8.9% | | -14.5% | |
| | | | | | | | | | 0 | | 0 | |
| Memo: Total of non-taxable items (marked 'X' above) | | | | | | | | | | | | |
| Uncorrected misstatements before income tax | | | | | | | | 8.9% | (292,629) | | 179,997 | |
| Less: Tax effect of misstatements at current year marginal rate | | | | | | | | 0% | 0 | | 0 | |
| Uncorrected misstatements in income tax | | | | | | | | | 0 | | 0 | |
| Cumulative effect of uncorrected misstatements after tax but before turnaround | | | | | | | | 8.9% | (292,629) | | 179,997 | |
| Turnaround effect of prior period uncorrected misstatements | | | | | | | | | | | | |
| | | | | | | | | | After tax | Memo: Before tax | | |
| | | All factual and projected misstatements: | | | | | | | (179,997) | (179,997) | | |
| | | Judgmental misstatements (Note 3): | | | | | | | 0 | 0 | | |
| Cumulative effect of uncorrected misstatements, after turnaround effect | | | | | | | | 14.4% | (472,626) | | | |
| Current year income before tax | | | | | | | | | (3,272,224) | | | |
| Current year income after tax | | | | | | | | | (3,272,224) | | | |

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Thomas C. Ada, Executive Manager

John A. Ros, Comptroller

EY

EY Form 430GL

1 August 2018

C – Management's Representation Letters

A.B. WON PAT INTERNATIONAL AIRPORT GUAM
ATURIDAT PUETTON BATKON AIREN GUAHAN ENTENASIONAT

P.O. Box 8770
Tamuning, GU 96931
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www.guamairport.com

WE'RE ON IT 24/7

Email: official@guamairport.net

April 23, 2020

Ernst & Young LLP
Suite 201, Ernst & Young Building
231 Ypao Road
Tamuning, Guam 96913

In connection with your audits of the basic financial statements of the Antonio B. Won Pat International Airport Authority, Guam (the Authority) as of September 30, 2019 and 2018 and for the periods then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the respective changes in financial position and cash flows, thereof in conformity with US generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief.

***Management's responsibilities***

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated November 5, 2019, for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US generally accepted accounting principles (US GAAP) applied on a basis consistent with that of the preceding periods.

We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, data, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit

C – Management's Representation Letters, continued



- Unrestricted access to persons within the Authority from whom you determined it necessary to obtain evidence

***Management's responsibilities, continued***

We recognize that we are responsible for the Authority's compliance with the laws, regulations, provisions of contracts and grant agreements that are applicable to it. We have identified and disclosed to your representatives all laws, regulations, provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

We have identified to your representatives all previous audits, attestation engagements, and other studies related to the audit objectives and whether the related recommendations have been implemented.

There has been no noncompliance or possible noncompliance with provisions of contracts or grant agreements in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

There have been no instances of abuse that have occurred or are likely to have occurred that could be quantitatively or qualitatively material to the financial statements.

We have a process to track the status of audit findings and recommendations.

We have provided views on your reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

We have taken timely and appropriate steps to remedy fraud, and noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

***Internal control***

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2019.

***Uncorrected misstatements***

We believe that the effects of any uncorrected misstatements (including those related to supplementary information), summarized in the accompanying schedules, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole and to the supplementary information.

C – Management's Representation Letters, continued

A.B. Won Pat International Airport Authority, Guam
Letter of Representations

April 23, 2020

***Minutes and contracts***

The dates of meetings of shareholders, directors, committees of directors and important management committees from October 1, 2018 to April 23, 2020 are as follows:

| Date Meeting | Type |
|---|---|
| October 25, 2018 | Regular |
| December 03, 2018 | Regular |
| January 03, 2019 | Regular |
| January 31, 2019 | Regular |
| February 28, 2019 | Regular |
| March 25, 2019 | Regular |
| April 30, 2019 | Regular |
| June 14, 2019 | Regular |
| June 27, 2019 | Regular |
| July 25, 2019 | Regular |
| August 29, 2019 | Regular |
| September 24, 2019 | Regular |
| October 11, 2019 | Special |
| November 12, 2019 | Regular |

We have made available to you all minutes of the meetings of shareholders, directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

***Significant assumptions***

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and supportable.

***Environmental liabilities***

We have disclosed to you all significant pollution remediation matters and have made available to you all significant relevant information related to them. The pollution remediation obligations included in the statements of net position represents our best estimate of the potential losses in accordance with GASB Statement No. 49 as amended. The disclosures of pollution remediation matter in the financial statements are in accordance with GASB Statement No. 49 as amended.

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***Ownership and pledging of assets***

Except for properties capitalized under capital leases, the Authority has satisfactory title to all assets appearing in the statements of net position. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged except as disclosed in the financial statements. All assets to which the Authority has satisfactory title appear in the statements of net position (except assets leased to others under sales-type leases).

***Receivables and revenues***

Receivables represent valid claims against the debtors indicated and do not include amounts for goods shipped or services provided subsequent to the statement of net position dates, goods shipped on consignment, or other types of arrangements not constituting sales. Receivables have been determined in accordance with all relevant GASB Statements, including GASB Statements No. 33 and 62 as amended.

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to the statement of net position dates in respect of any sales and services rendered prior to those dates and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at those dates.

We have disclosed to you all sales terms (both expressed and implied), including all rights of return or price adjustments and warranty provisions. We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers, including distributors and resellers.

***Long-lived assets to be held and used, including amortizable intangible assets***

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

***Fair value measurements***

We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or other third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as of the measurement date in accordance with the requirements of GASB Statement No. 72 – as amended. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72 – as amended.

C – Management's Representation Letters, continued



***Related party relationships and transactions***

We have made available to you the names of all related parties and all relationships and transactions with related parties.

The substance of transactions with related parties as defined in GASB Statement No. 56 as amended, has been considered and appropriate adjustments or disclosures are made in the basic financial statements, and information concerning these transactions and amounts have been made available to you.

***Side agreements and other arrangements***

There have been no side agreements or other arrangements (either written or oral) that have not been disclosed to you.

***Arrangements with financial institutions***

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

***Events of default under debt agreements***

No events of default have occurred with respect to any of the Authority's debt agreements.

***Contingent liabilities***

There are no unasserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with GASB 62 other than those disclosed in the financial statements.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by generally accepted accounting principles other than those accrued or disclosed in the financial statements, nor are there any accruals for loss contingencies included in the statements of net position or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB 62 – as amended.

C – Management's Representation Letters, continued

A.B. Won Pat International Airport Authority, Guam
Letter of Representations

April 23, 2020

***Oral or written guarantees***

There are no oral or written guarantees, including guarantees of the debt of others.

***Purchase commitments***

At September 30, 2019 and 2018, the Authority had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at those dates.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2019 and 2018 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

***Fraud***

We acknowledge our responsibility for the design, implementation and maintenance of programs and internal control to prevent and detect fraud.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

***Independence***

We are not aware of any capital lease, material cooperative arrangement or other business relationship between the Authority and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be considered to be independent for purposes of the Authority's audits.

***Conflicts of interest***

There are no instances where any officer or employee of the Authority has an interest in a company with which the Authority does business that would be considered a "conflict of interest." Such an interest would be contrary to the Authority's policy.

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C – Management's Representation Letters, continued



***Effects of new accounting principles***

As discussed in Note 1 to the financial statements, we have not completed the process of evaluating the effects that will result from adopting the amendments to the following codifications provided in Governmental Accounting Standards Board (GASB):

- GASB Statement No. 84
- GASB Statement No. 87
- GASB Statement No. 89
- GASB Statement No. 90
- GASB Statement No. 91
- GASB Statement No. 92

The Authority is therefore unable to disclose the effects that adopting the amendments in the aforementioned GASB Statements will have on its financial position and the changes in its financial position when such statements are adopted.

***Required supplementary information***

We acknowledge our responsibility for the required supplementary information on the management's discussion and analysis on pages 4 through 30, schedule of proportionate share of net pension liability on pages 80, 82 and 84, the schedule of contributions on pages 81, 83, 85 and 87 and the schedule of proportionate share of other postemployment benefits liability on page 86, which have been measured and presented in conformity with the guidelines established by the Governmental Accounting Standards Board in its applicable GASB Statement. There have been no changes in the methods of measurement or presentation of the required supplementary information from those used in the prior period. We are responsible for the significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information. We believe that the significant assumptions and interpretations used are reasonable.

We believe that the separate presentation of the schedule of changes in total pension liability and related ratios related to GASB statement No. 73 is not significant. The required information is combined with schedules required under GASB Statement No. 68.

We have omitted the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other Than Pension that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. We understand the missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board 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.

C – Management's Representation Letters, continued



***Supplementary information***

We are responsible for the preparation and fair presentation of the following schedules (the "supplementary information"):

- Schedule 9 - Facilities and Systems Usage Charges
- Schedule 10 - Concession Fees
- Schedule 11 - Rental Income
- Schedule 12 - Contractual Services
- Schedule 13 - Personnel Services
- Schedule 14 - Materials and Supplies
- Schedule 15 - Insurance Coverage
- Schedule 16 - Reconciliation of Historical Financial Results
- Schedule 17 - Employee Data

We believe the supplementary information, including its form and content, is fairly stated in all material respects in relation to the basic financial statements as a whole.

There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period.

There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

***Government of Guam General Fund***

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

Notwithstanding the requirements of 5 G.C.A. § 22421, the Authority is prohibited by its 2013 General Revenue Bond Indentures (2013 Indentures) and federal law from transferring any funds from its operating surplus to the General Fund.

During the course of Fiscal Year 2019, there was no substantive progress of discussions with the Executive and Legislative branches to repeal 5 GCA § 22421 or on the issue of the Government of Guam assessment.

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

C – Management's Representation Letters, continued

A.B. Won Pat International Airport Authority, Guam
Letter of Representations

April 23, 2020

***Other Representations***

- We have identified and disclosed to you, all provisions of laws and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds
- We have identified and disclosed to you violations (and possible violations) of laws, regulations and provisions of contracts and grant agreements with effects that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- We have followed applicable laws and regulations in adopting, approving and amending budgets, debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments.
- The financial statements properly classify all funds and activities in accordance with GAB Statement No. 54—as amended.
- Components of net position (net investments in capital assets, restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
- Provisions for uncollectible receivables have been properly identified and recorded.
- Special and extraordinary items are appropriately classified and reported.
- Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.
- Investments are properly valued.
- Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.

***Unearned Revenue***

The Authority received $1,078,367 on September 13, 2017 from the Federal Aviation Administration (FAA), however, no support was included with the funds transfer to indicate the purpose of the transfer of funds. As such, the Authority has sought clarification from the FAA and has recorded the receipt of these funds under unearned revenue until it is certain what the funds were for.

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C – Management's Representation Letters, continued

A.B. Won Pat International Airport Authority, Guam
Letter of Representations

April 23, 2020

***Subsequent events***

Subsequent to September 30, 2019, no events or transactions have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or that are of such significance in relation to the Authority's affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the financial position, changes in financial position, and cash flows of the Authority.

* * * * * * *

We understand that your audits were conducted in accordance with auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and were, therefore, designed primarily for the purpose of expressing an opinion on the basic financial statements of the Authority, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours

Thomas C. Ada
Executive Manager

John A. Rios
Comptroller

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C – Management's Representation Letters, continued

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April 23, 2020

Ernst & Young LLP
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Tamuning, Guam 96913

We are providing this letter in connection with your audit of the federal award programs of the Antonio B. Won Pat Airport Authority, Guam (the "Authority") as of and for the year ended September 30, 2019, which was performed in accordance with auditing standards generally accepted in the United States, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Single Audit Act Amendments of 1996, and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). We recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure and we understand that the purpose of your testing of transactions and records from the Authority's federal programs was to obtain reasonable assurance that the Authority had complied, in all material respects, with the compliance requirements that could have a direct and material effect on each of its major programs.

In connection with your audit, we confirm, to the best of our knowledge and belief, the following representations:

1. We acknowledge our responsibility for understanding and complying with the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs. We are responsible for complying, and have complied, with the requirements of the Uniform Guidance.

2. We have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each of the Authority's major federal programs.

3. We have made available to you all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.

4. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

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5. We have provided to you our interpretations of any compliance requirements that are subject to varying interpretations.

6. We acknowledge our responsibility for establishing and maintaining, and have established and maintained effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are managed in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on the federal programs.

   We have been made aware of the lack of internal control over cash management, specifically ensuring that invoices are paid prior to the reimbursement request submittal to the Federal Aviation Administration.

7. We have complied in all material respects with the requirements of the Uniform Guidance including with the direct and material compliance requirements, and with federal statutes, regulations, and the terms and conditions federal awards related to each of the federal programs, except for those findings disclosed in the Schedule of Findings and Questioned Costs and/or otherwise disclosed to you.

8. We have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards.

   We have been made aware of our *noncompliance 2 CFR 200, Appendix XI, Compliance Requirements* and *2 CFR 200.305(b)(1)*.

9. We are responsible for the presentation of the Schedule of Expenditures of Federal Awards ("the Schedule") in accordance with the Uniform Guidance, 2 CFR 200.510(b). We believe the schedule, including its form and content, is presented in accordance with the Uniform Guidance, 2 CFR 200.510(b). There have been no changes in the methods of measurement or presentation of the schedule from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the schedule.

10. We acknowledge that it is our responsibility for understanding and complying with the compliance requirements related to the preparation of the Schedule. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit and have included in the Schedule all expenditures made during the period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees and other noncash awards, property (including donated surplus property), cooperative agreements under the Federal Acquisition Regulations, interest subsidies, insurance, food commodities, direct appropriations and other direct assistance. The schedule is accurate and complete in all material respects, presents the information required by the Uniform Guidance, and includes all federal program expenditures made during the year ended September 30, 2019.

11. We have charged costs to federal awards in accordance with applicable cost principles.

12. Information presented in federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the Authority's financial statements have been prepared, and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards.

13. Amounts claimed or used for matching were determined in accordance with the applicable cost principles and administrative requirements.

14. The copies of the Authority's federal program financial reports provided to you are true copies of the reports submitted or electronically transmitted to the federal agencies or pass-through entities, as applicable.

15. We acknowledge our responsibility for the design, implementation and maintenance of programs and internal control to prevent and detect fraud. We have no knowledge of any fraud or suspected fraud affecting federal programs involving management or other employees who have a significant role in internal control over financial reporting and compliance. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the federal programs. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the federal program.

16. We have accurately completed the appropriate sections of the Data Collection Form.

17. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance.

18. The reporting package does not contain protected personally identifiable information.

19. We have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

20. We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of this letter.

21. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the year ended September 30, 2019 to the date of this letter.

22. We have disclosed to you all known noncompliance with direct and material compliance requirements occurring subsequent to the year ended September 30, 2019. We have disclosed

to you that there are no known instances of noncompliance with the direct and material compliance requirements occurring subsequent to the year ended September 30, 2019.

23. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the year ended September 30, 2019.

24. We have disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the year ended September 30, 2019.

25. We are responsible for taking corrective action on audit findings of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

In connection with your audit, we also confirm, to the best of our knowledge and belief, the following representations related to any findings included in the Schedule of Findings and Questioned Costs:

26. We have resolved any audit findings and recommendations directed to us and have a process to track their status.

27. We have taken timely and appropriate steps to remedy fraud, noncompliance with federal statutes, regulations, the terms and conditions of federal awards or abuse that you have reported.

28. We have provided views on your reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.

29. We have not received any written notification from the Federal Aviation Administration designating grants received under CFDA No. 20.106 as a major program for the fiscal year ending September 30, 2019.

**Corrective action plan**

We have developed a corrective action plan that meets the requirements of the Uniform Guidance and addresses each of the findings reported in the Schedule of Findings and Questioned Costs.

In addition to our responsibility in preparing the schedule and related notes, we confirm that as of September 30, 2019 to the date of this letter, we are not aware of any assigned Catalog of Federal Domestic Assistance number related to the Other Transaction Agreement Checked Baggage Recapitalization Screening Construction Services Project.

C – Management's Representation Letters, continued

We understand that your audit was made in accordance with auditing standards generally accepted in the United States, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Single Audit Act Amendments of 1996, and the audit requirements of the Uniform Guidance and, and was, therefore, designed for the purpose of obtaining reasonable assurance about whether the Schedule of Expenditures of Federal Awards is presented fairly, in all material respects, in relation to the financial statements taken as a whole and whether the Authority had, in all material respects, administered each of its major federal programs in compliance with federal statutes, regulations, and the terms and conditions of federal awards , noncompliance with which could have a direct and material effect on the federal program. Accordingly, we understand that your tests of the accounting and federal program records and other auditing procedures were limited to those that you considered necessary for those purposes.

Very truly yours,

Thomas C. Ada
Executive Manager

John A. Rios
Comptroller

C – Management's Representation Letters, continued

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April 23, 2020

Ernst & Young LLP
Ernst & Young Building
231 Ypao Road, Suite 201
Tamuning, Guam 96913

We are providing this letter in connection with your audit of the passenger facility charge program of the Antonio B. Won Pat Airport Authority, Guam (the "Authority") as of and for the year ended September 30, 2019, which was performed in accordance with auditing standards generally accepted in the United States, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide). We recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure and we understand that the purpose of your testing of transactions and records from the Authority's passenger facility charge program was to obtain reasonable assurance that the Authority had complied, in all material respects, with the compliance requirements that could have a direct and material effect on the Authority's passenger facility charge program.

In connection with your audit, we confirm, to the best of our knowledge and belief, the following representations:

1. We acknowledge our responsibility for understanding and complying with the requirements of laws, regulations, and provisions of contracts and agreements of the passenger facility charge program. We are responsible for complying, and have complied, with the requirements of the Guide.

2. We have identified and disclosed to you the laws, regulations, and provisions of contracts and agreements that are considered to have a direct and material effect on the Authority's passenger facility charge program.

3. We have made available to you all contracts and agreements (including amendments, if any) and any other correspondence relevant to the passenger facility charge program and related activities that have taken place with the Federal Aviation Administration (FAA) related to passenger facility charge program.

4. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to passenger facility charge programs financial reports and claims for advances and reimbursements.

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5. We have provided to you our interpretations of any compliance requirements that are subject to varying interpretations.

6. We acknowledge our responsibility for establishing and maintaining, and have established and maintained effective internal control over compliance for passenger facility charge programs that provides reasonable assurance that passenger facility charge programs are managed in compliance with the laws, regulations, and provisions of contracts or agreements that could have a material effect on the passenger facility charge program. Internal control is functioning as intended.

7. We have complied in all material respects with the requirements of the Guide including with the laws, regulations, and provisions of contracts and grant agreements related to each of the passenger facility charge programs, except for those findings disclosed in the Schedule of Findings and/or otherwise disclosed by you.

8. We have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of the passenger facility charge programs, including the results of other audits or program reviews.

9. We are responsible for the presentation of the Schedule of Passenger Facility Charges Collected and Expended (the Schedule) in accordance with the Guide. We believe the Schedule, including its form and content, is presented in accordance with the Guide. There have been no changes in the methods of measurement or presentation of the Schedule from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the Schedule.

10. We acknowledge that it is our responsibility for understanding and complying with the compliance requirements related to the preparation of the Schedule. We have identified and disclosed to you all of our passenger facility charge programs and related activities subject to the Guide compliance audit and have included in the Schedule all expenditures made, revenues received, and interest and investment income earned. The Schedule is accurate and complete in all material respects, presents the information required by the Guide, and includes all passenger facility charge program expenditures made during the year ended September 30, 2019.

11. We have made expenditures to the approved second application pertaining to debt service related to the terminal renovation/construction.

12. Information presented in passenger facility charge program financial reports are supported by the books and records from which the Authority's financial statements have been prepared, and are prepared on a basis consistent with that presented in the Schedule of Passenger Facility Charges Collected and Expended. Amounts received or expended were determined in accordance with the applicable cost circulars and administrative requirements.

13. Amounts claimed or used were determined in accordance with the applicable cost principles and administrative requirements.

C – Management's Representation Letters, continued

14. The copies of the Authority's passenger facility charge program financial reports provided to you are true copies of the reports submitted or electronically transmitted to the FAA.

15. We acknowledge our responsibility for the design, implementation and maintenance of programs and internal control to prevent and detect fraud. We have no knowledge of any fraud or suspected fraud affecting passenger facility charge programs involving management or other employees who have a significant role in internal control over financial reporting and compliance. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the passenger facility charge programs. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the passenger facility charge program.

16. The summary schedule of prior audit findings are accurate and complete in all material respects and contain the information required by the Guide.

17. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by the Guide.

18. The reporting package does not contain protected personally identifiable information.

19. We have provided you with all information on the status of the follow-up on prior audit findings by the FAA, including all management decisions.

20. We have disclosed to you any communications from the FAA concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of this letter.

21. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the year ended September 30, 2019 to the date of this letter.

22. We have disclosed to you all known noncompliance with direct and material compliance requirements occurring subsequent to the year ended September 30, 2019.

23. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the year ended September 30, 2019.

24. We have disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the year ended September 30, 2019.

25. We are responsible for taking corrective action on audit findings of the compliance audit and have developed a corrective action plan that meets the requirements of the Guide.

In connection with your audit, we also confirm, to the best of our knowledge and belief, the following representations related to any findings included in the Schedule of Findings and Questioned Costs:

26. We have resolved any audit findings and recommendations directed to us and have a process to track their status.

27. We have taken timely and appropriate steps to remedy fraud, noncompliance with the passenger facility charge program statutes, regulations, the terms and conditions of passenger facility charge program or abuse that you have reported.

28. We have provided views on your reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.

We understand that your audit was made in accordance with auditing standards generally accepted in the United States, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of the Guide and, and was, therefore, designed for the purpose of obtaining reasonable assurance about whether the Schedule of Passenger Facility Charges Collected and Expended is presented fairly, in all material respects, in relation to the financial statements taken as a whole and whether the Authority had, in all material respects, administered the passenger facility charge program in compliance with laws, regulations, and the provisions of contracts or agreements, noncompliance with which could have a direct and material effect on the passenger facility charge program. Accordingly, we understand that your tests of the accounting and passenger facility charge program records and other auditing procedures were limited to those that you considered necessary for those purposes.

Very truly yours,

Thomas C. Ada,
Executive Manager

John A. Rios
Comptroller

*Report on Compliance and Internal Control and Schedule of Passenger Facility Charges Collected and Expended*

# Antonio B. Won Pat International Airport Authority, Guam

(A Component Unit of the Government of Guam)

*Year ended September 30, 2019*



Building a better working world

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

Report on Compliance and Internal Control and
Schedule of Passenger Facility Charges Collected and Expended

Year ended September 30, 2019

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Report of Independent Auditors on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance and Report on Schedule of Passenger Facility Charges Collected and Expended Required by the Federal Aviation Administration

Management and the Board of Directors
Antonio B. Won Pat International Airport Authority, Guam

**Report on Compliance for the Passenger Facility Charge Program**

We have audited the Antonio B. Won Pat International Airport Authority, Guam's (the Authority) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide) that could have a direct and material effect on the Authority's passenger facility charge program for the year ended September 30, 2019.

***Management's Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations and the terms and conditions of projects applicable to the passenger facility charge program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Authority's passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Authority's compliance.



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***Opinion on the Passenger Facility Charge Program***

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Authority's passenger facility charge program for the year ended September 30, 2019.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with the Guide, and which is described in the accompanying schedule of finding and questioned cost as item 2019-001. Our opinion on the passenger facility charge program is not modified with respect to these matters.

The Authority's responses to the noncompliance finding identified in our audit is described in the accompanying management's response and corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**Report on Internal Control over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the passenger facility charge program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiency in internal control over compliance, as described in the accompanying schedule of finding and questioned cost as item 2019-001 that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of finding and questioned cost and corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Passenger Facility Charges Collected and Expended**

We have audited the financial statements of the Authority as of and for the year ended September 30, 2019, and have issued our report thereon dated April 23, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of passenger facility charges collected and expended is presented for purposes of additional analysis as required by the Guide and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the audited procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of passenger facility charges collected and expended is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst + Young LLP

April 23, 2020

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

## Schedule of Passenger Facility Charges Collected and Expended

Each Quarter and for the Year Ended September 30, 2019

| Description | Beginning Balance Unliquidated PFC | PFC Revenues (1) | Investment Earnings | Total Expenditures | Ending Balance Unliquidated PFC |
|---|---|---|---|---|---|
| Cash receipts and disbursements, quarter ended December 31, 2018 | $ 2,601 | $1,598,214 | $20 | $(1,587,000) | $13,835 |
| Cash receipts and disbursements, quarter ended March 31, 2019 | 13,835 | 2,173,311 | 23 | (2,187,000) | 169 |
| Cash receipts and disbursements, quarter ended June 30, 2019 | 169 | 2,280,753 | 20 | (2,279,000) | 1,942 |
| Cash receipts and disbursements, quarter ended September 30, 2019 | 1,942 | 1,753,058 | 19 | (1,686,000) | 69,019 |
| **Total** | | **$7,805,336** | **$82** | **$(7,739,000)** | |

(1) PFC revenues are prepared on the cash-basis method of accounting.

*See accompanying notes.*

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Schedule of Passenger Facility Charges Collected and Expended

Year Ended September 30, 2019

## 1. Description of the Program

In 1990, the United States (U.S.) Congress enacted the Aviation Safety and Capacity Expansion Act of 1990, which allows public agencies controlling commercial service airports to charge eligible enplaning passengers at the airport a $1, $2 or $3 passenger facility charge (PFC). In 2000, the U.S. Congress passed the Aviation Investment and Reform Act for the 21st Century, which allowed airports to levy a PFC of $4.00 or $4.50 per eligible enplaned passenger.

Effective February 1, 1993, Antonio B. Won Pat International Airport Authority, Guam (the Authority) began the assessment of a $3.00 PFC which increased to $4.50 in November 1, 2002. The charge is collected by all carriers and remitted to the Authority, less $0.11 for the air carriers for compensation for collecting, handling and remitting the PFC revenue. The proceeds of the PFC are restricted for use by the Authority for certain FAA- approved capital improvement projects and debt payments. PFC revenues are reflected as non-operating revenues when collected by the Airlines. As of September 30, 2019, the Authority has an approved open application for terminal renovation or construction and airport access road reconfiguration. Under such application, the Authority is authorized to collect $257,802,097 of PFC revenue until March 1, 2025.

## 2. Significant Accounting Policy

The schedule of passenger facility charges collected and expended is prepared using the cash basis of accounting. Receipts and income are recorded when cash is received and expenditures are recorded when cash is disbursed.

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

Passenger Facility Charge Program Schedule of Finding and Questioned Cost

Year Ended September 30, 2019

Finding No.: 2019-001
Area: Remittance of PFCs

Criteria:

In accordance with 14 Code of Federal Regulations (CFR) Part 158.51, PFCs collected by carriers shall be remitted to the public agency on a monthly basis. PFC revenue recorded in the accounting system of the carrier, shall be remitted to the public agency no later than the last day of the following calendar month (or if that date falls on a weekend or holiday, the first business day thereafter).

Condition:

During the year ended September 30, 2019, two carriers remitted collections to the Authority later than the last day of the following calendar month in which the collection was received.

Context:

We randomly selected monthly remittances made by airlines and tested the timelines of the payments.

Effect:

The Authority received late monthly remittances from two air carriers and, accordingly, the Authority is not in compliance with Section 158.51 of 14 CFR Part 158.

Cause:

Despite the Authority's efforts to communicate the due dates of monthly PFC revenue remittances with the air carriers, certain air carriers continue to make late payments.

Recommendation:

The Authority should continue to send a written notice to air carriers reminding them of their requirement to submit PFC remittances by the due date.

Views of Responsible Officials and Corrective Actions:

Management agrees. Please refer to the separate corrective action plan.

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Antonio B. Won Pat International Airport Authority, Guam

(A Component Unit of the Government of Guam)

Year ended September 30, 2019

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AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES
AIRPORTS COUNCIL INTERNATIONAL
NASAO National Association of State Aviation Officials
TIACA THE INTERNATIONAL AIR CARGO ASSOCIATION

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Antonio B. Won Pat International Airport Authority, Guam
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Corrective Action Plan
Year ended September 30, 2019

**Finding No.: 2019-001**

Planned Corrective Actions:

The Authority will review current internal control procedures and update accordingly. Such internal control procedures will be documented and disseminated to responsible personnel.

Expected Completion Date:

The Authority has commence implementing the updated internal control procedures. The relative documentation will be completed before the end of the Fiscal Year.

Contact Person:

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Antonio B. Won Pat International Airport Authority, Guam
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Summary Schedule of Prior Audit Findings
Year ended September 30, 2019

**Financial Statement Findings**

Finding No.
2018-001

Requirement
Existence of internal control over work-in-progress.

Comment:
Corrective action has been taken.

Finding No.
2018-002

Requirement
Compliance with 14 Code of Federal Regulations Part 158.49 "Passenger Facility Charge" (PFC) regarding requirement to designate one PFC account on each of the covered air carriers.

Comment:
Corrective action has been taken.

Finding No.
2017-001

Requirement

Compliance with GASB Implementation Guide 2015-1 Question 7.17 regarding capitalization of certain expenditures.

Comment:
Corrective action has been taken.

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Antonio B. Won Pat International Airport Authority, Guam
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Summary Schedule of Prior Audit Findings, continued
Year ended September 30, 2019

**Federal Award Findings and Questioned Costs**

Finding No.
2017-002

CFDA No.
97.U01

Requirement
Submission of quarterly project financial statements.

Questioned Costs:
None

Comment:
Corrective action has been taken.

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Antonio B. Won Pat International Airport Authority, Guam

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Year ended September 30, 2019

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Passenger Facility Charge Program Corrective Action Plan
Year ended September 30, 2019

**Finding No.: 2019-001**

Planned corrective actions:

The Authority will continue to send written reminder notices to air carriers.

Expected Completion Date:

These measures have been put into effect immediately.

Contact Person:

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Passenger Facility Charge Program Summary Schedule of Prior Audit Findings
Year ended September 30, 2019

**Passenger Facility Charge Findings and Questioned Costs**

Finding No.
2018-001
2017-001

Requirement
*PFCs collected by carriers shall be remitted to the public agency on a monthly basis.* PFC revenue recorded in the accounting system of the carrier, shall be remitted to the public agency no later than the last day of the following calendar month.

Comment:
Unresolved. See similar finding 2019-001.

Finding No.
2018-002
2017-002

Requirement
Each carrier collecting PFC revenues for a public agency shall file quarterly reports to the public agency stating the total PFC collected, the total amount of PFC revenue refunded to passengers, and the amount of collection withheld by the collecting carrier for reimbursement of expenses. *The report shall be filed on or before the last day of the calendar month following the calendar quarter or other period agreed by the collecting carrier and public agency for which funds were collected.*

Comment:
Resolved.

**Passenger Facility Charge Findings and Questioned Costs Fiscal Years Prior to September 30, 2017**

Audit findings identified prior to fiscal year ended September 30, 2017 are not included in this summary of prior audit findings for the following reasons:

- Two years have passed since the audit report in which the finding occurred was submitted to the Federal Aviation Administration (FAA);
- The FAA is not currently following up with the auditee on the audit findings; and
- A management decision was not issued.