

GUAM INTERNATIONAL AIRPORT AUTHORITY

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2000 AND 1999



INDEPENDENT AUDITORS' REPORT

Board of Directors
Guam International Airport Authority:

We have audited the accompanying balance sheets of Guam International Airport Authority (the "Authority"), a component unit of the Government of Guam, as of September 30, 2000 and 1999, and the related statements of operations and equity and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Guam International Airport Authority as of September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2000, on our consideration of the Guam International Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized, with the "D" and "T" being particularly large and prominent.

December 12, 2000

GUAM INTERNATIONAL AIRPORT AUTHORITY

Balance Sheets
September 30, 2000 and 1999

<u>ASSETS</u>	<u>2000</u>	<u>1999</u>
Current assets:		
Cash	\$ 1,900,593	\$ 1,241,807
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$152,696 in 2000 and \$515,471 in 1999	6,475,255	5,914,415
United States Government	2,415,647	962,449
Prepaid expense	84,586	2,282
	<u>10,876,081</u>	<u>8,120,953</u>
Total current assets		
Restricted assets (notes 4 and 5):		
General Revenue Bonds, Series 1993:		
Investments and cash with trustees	95,628,963	97,460,539
Accrued interest	939,675	480,012
	<u>96,568,638</u>	<u>97,940,551</u>
Total restricted assets		
Airport facilities, at cost less accumulated depreciation (note 3)	294,889,920	295,133,231
Deferred bond issue costs	2,440,190	2,603,162
	<u>\$ 404,774,829</u>	<u>\$ 403,797,897</u>

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Balance Sheets, Continued
September 30, 2000 and 1999

<u>LIABILITIES AND EQUITY</u>	<u>2000</u>	<u>1999</u>
Current liabilities:		
Accounts payable - trade (note 12)	\$ 5,208,625	\$ 3,507,032
Other liabilities	374,992	367,127
Deferred income (note 8)	3,691,171	4,300,581
Current portion of annual leave	462,029	425,006
	<u>9,736,817</u>	<u>8,599,746</u>
Total current liabilities other than those payable from restricted assets		
Payable from restricted assets:		
General Revenue Bonds, Series 1993 (note 4):		
Current installments	4,130,000	3,910,000
Accrued interest	7,427,562	7,539,942
Accounts payable - construction	1,734,930	1,150,859
	<u>13,292,492</u>	<u>12,600,801</u>
Total payable from restricted assets		
Total current liabilities	23,029,309	21,200,547
Accrued unfunded liability to retirement fund (note 6)	2,535,186	2,302,204
Long-term portion of annual leave	578,057	637,508
Long-term bonds payable, less current installments (note 4):		
General Revenue Bonds, Series 1993	219,590,951	223,656,223
	<u>245,733,503</u>	<u>247,796,482</u>
Total liabilities		
Equity:		
Contributed capital:		
Government of Guam	1,439,712	1,439,712
United States Government	79,850,289	74,635,957
Other	37,971	37,971
	<u>81,327,972</u>	<u>76,113,640</u>
Total contributed capital		
Retained earnings	77,713,354	79,887,775
	<u>159,041,326</u>	<u>156,001,415</u>
Total equity		
Commitments and contingencies (notes 7, 10 and 13)	\$ <u>404,774,829</u>	\$ <u>403,797,897</u>

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Operations and Equity Years Ended September 30, 2000 and 1999

	2000	1999
Revenues (notes 4 and 11):		
Facilities and systems usage charges	\$ 17,944,063	\$ 18,291,651
Concession fees (note 8)	17,072,031	15,387,839
Rental income	6,520,972	6,996,153
Miscellaneous	1,050,929	991,168
Total revenues	<u>42,587,995</u>	<u>41,666,811</u>
Operating costs and expenses:		
Contractual services	13,071,213	11,328,316
Personnel services	10,511,795	10,617,285
Materials and supplies	962,996	1,095,336
Bad debt expense	148,048	277,511
Total operating costs and expenses before depreciation	<u>24,694,052</u>	<u>23,318,448</u>
Depreciation and amortization	<u>15,688,724</u>	<u>15,952,051</u>
Total operating costs and expenses	<u>40,382,776</u>	<u>39,270,499</u>
Earnings from operations	<u>2,205,219</u>	<u>2,396,312</u>
Other income (expense):		
Interest income	5,295,945	4,410,492
Interest expense	(14,270,149)	(14,798,720)
Passenger facility charge income	4,614,598	4,027,327
Typhoon gain (note 13)	37,578	62,482
Other expenses (note 9)	(57,612)	(3,326,492)
Total other expense, net	<u>(4,379,640)</u>	<u>(9,624,911)</u>
Excess of expenses over revenue	(2,174,421)	(7,228,599)
Retained earnings at beginning of year	<u>79,887,775</u>	<u>87,116,374</u>
Retained earnings at end of year	<u>77,713,354</u>	<u>79,887,775</u>
Contributed capital at beginning of year	76,113,640	72,985,818
Contributions by the United States Government	<u>5,214,332</u>	<u>3,127,822</u>
Contributed capital at end of year	<u>81,327,972</u>	<u>76,113,640</u>
Equity at end of year	<u>\$ 159,041,326</u>	<u>\$ 156,001,415</u>

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Cash Flows Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Cash received from customers	\$ 45,880,360	\$ 48,062,209
Cash paid to suppliers and employees for goods and services	<u>(22,930,028)</u>	<u>(27,814,614)</u>
Net cash provided by operating activities	<u>22,950,332</u>	<u>20,247,595</u>
Cash flows from investing activities:		
Proceeds from the sale of investments with trustee	1,831,576	1,734,656
Investment interest income	<u>4,836,282</u>	<u>5,321,404</u>
Net cash provided by investing activities	<u>6,667,858</u>	<u>7,056,060</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities	(14,698,370)	(20,413,409)
Principal payment on General Revenue Bonds, Series 1993	(3,910,000)	(3,705,000)
Interest paid on General Revenue Bonds, Series 1993	(14,317,801)	(14,836,294)
U.S. Government capital contributions	<u>3,966,767</u>	<u>11,251,434</u>
Net cash used for capital and related financing activities	<u>(28,959,404)</u>	<u>(27,703,269)</u>
Net increase (decrease) in cash	658,786	(399,614)
Cash at beginning of year	<u>1,241,807</u>	<u>1,641,421</u>
Cash at end of year	<u><u>\$ 1,900,593</u></u>	<u><u>\$ 1,241,807</u></u>

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Cash Flows, Continued Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Reconciliation of earnings from operations and other income (expense) to net cash provided by operating activities:		
Earnings from operations	\$ 2,205,219	\$ 2,396,312
Passenger facility charge income	4,614,598	4,027,327
Typhoon gain (note 13)	37,578	62,482
Other expense (note 9)	<u>(57,612)</u>	<u>(3,326,492)</u>
	<u>6,799,783</u>	<u>3,159,629</u>
Adjustments to reconcile earnings from operations and other income (expense) to net cash provided by operating activities:		
Depreciation and amortization	15,688,724	15,952,051
Bad debt expense	148,048	277,511
(Increase) decrease in assets:		
Accounts receivable - trade	(708,888)	2,119,280
Receivable from FEMA	(205,633)	(190,454)
Prepaid expense	(82,304)	-
Increase (decrease) in liabilities:		
Accounts payable - trade	1,701,593	(1,201,050)
Accrued unfunded liability to retirement fund	232,982	(127,901)
Other liabilities	(10,628)	9,739
Deferred income	<u>(613,345)</u>	<u>248,790</u>
Total adjustments	<u>16,150,549</u>	<u>17,087,966</u>
Net cash provided by operating activities	<u>\$ 22,950,332</u>	<u>\$ 20,247,595</u>

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2000 and 1999

(1) Organization

The Guam International Airport Authority (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. All assets and liabilities were transferred from the Department of Commerce to the Authority at book value effective January 20, 1976.

(2) Summary of Significant Accounting Policies

Basis of Accounting. The Authority utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with generally accepted accounting principles as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting" requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Cash. For the purpose of the balance sheets and the statements of cash flows, cash is defined as cash on hand, cash on deposit in banks and cash in unrestricted money market accounts.

Depreciation and Amortization. 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 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. For projects constructed with the proceeds of the Authority's tax exempt bonds, interest capitalized is computed based on the interest expense incurred on the bond proceeds restricted to construction or repayment of the bonds less interest income earned on investment of bond proceeds. Interest is capitalized in accordance with Statement of Financial Accounting Standards No. 34 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.

Accrued Vacation Leave. Employees are credited for vacation leave at rates of 104, 160 or 208 hours per fiscal year, depending upon their lengths of service. Accumulation of such vacation credits is limited to 480 hours at fiscal year-end and is convertible to pay upon termination of employment.

Bond Discount. The discount on the 1993 General Revenue Bonds is being amortized on a weighted-average basis over the life of the bond issue.

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Notes to Financial Statements
September 30, 2000 and 1999

(2) Summary of Significant Accounting Policies, Continued

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

Passenger Facility Charges. Passenger Facility Charges (PFCs) generate revenue 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 revenues are recorded as nonoperating income in the statements of operations.

Risk Management. The Authority is exposed to various risks of loss; theft of, damage to, and destruction of assets; operation 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 is self insured for earthquake and typhoon risks as disclosed in note 10. The Authority is of the opinion that no material losses have occurred as a result of self insuring for these risks since the super typhoon in 1997 (note 13).

Reclassifications. Certain balances in the 1999 financial statements have been reclassified to correspond to the 2000 presentation.

(3) Airport Facilities

Airport facilities at September 30, 2000 and 1999, consist of the following:

	<u>2000</u>	<u>1999</u>
Terminal building	\$ 292,789,553	\$ 292,142,869
Apron area	25,253,485	25,253,485
Terminal area	22,762,719	22,762,719
Other buildings	19,501,368	19,496,600
Airfield area	11,236,546	11,236,546
Support facilities	<u>3,960,913</u>	<u>3,946,478</u>
	375,504,584	374,838,697
Less accumulated depreciation	<u>(113,848,698)</u>	<u>(98,322,946)</u>
	261,655,886	276,515,751
Construction in progress	<u>33,234,034</u>	<u>18,617,480</u>
	<u>\$ 294,889,920</u>	<u>\$ 295,133,231</u>

Interest capitalized for the years ended September 30, 2000 and 1999, was \$584,975 and \$281,165, 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. The Navy will pay the Authority \$10 million and the Authority and the Government of Guam will assume the responsibility for completion of certain environmental work on the property (see note 10).

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Notes to Financial Statements
September 30, 2000 and 1999

(4) Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 2000 and 1999, consist of the following:

	<u>2000</u>	<u>1999</u>
General Revenue Bonds, Series 1993 (original issue of \$240,015,000):		
Varying interest rates (5.6% - 6.7%) payable semiannually in October and April, principal and mandatory sinking fund payments due in varying annual installments with \$405,000 due in October, 1994, and increasing to \$17,800,000 by October 2023.	\$ 224,690,000	\$ 228,600,000
Less current installments	<u>4,130,000</u>	<u>3,910,000</u>
	220,560,000	224,690,000
Less net unamortized discount on bonds	<u>969,049</u>	<u>1,033,777</u>
	\$ <u>219,590,951</u>	\$ <u>223,656,223</u>

Bond principal and mandatory sinking fund installments payable by the Authority to the bond trustees through 2005 and subsequent years are as follows:

Year Ending September 30,

2001	\$ 4,130,000
2002	4,375,000
2003	4,660,000
2004	4,950,000
2005	5,265,000
Subsequent years	<u>201,310,000</u>
	\$ <u>224,690,000</u>

The General Revenue Bonds, Series 1993, were authorized and issued in two groups - Series A - \$30,740,000 and Series B - \$209,275,000 - for the purposes of refunding existing outstanding bonds, the General Revenue Bonds, Series 1979, and for providing funds to finance the construction, expansion, and upgrading of and improvements to the airport facilities. The General Revenue Bonds, Series 1993, including interest, are payable solely 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. Neither the payment of the principal of 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 equal at least 125% of the annual debt service. The Authority has determined that these requirements have been met during the years ended September 30, 2000 and 1999.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements September 30, 2000 and 1999

(5) Investments and Cash with Trustees

The aforementioned bond indentures require the establishment of special funds and accounts to be held and administered by the Authority's trustees for the accounting of the monies. At September 30, 2000 and 1999, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	<u>2000</u>	<u>1999</u>
Capital Improvement Fund	\$ 24,507,052	\$ 31,629,873
Bond Reserve Funds	18,999,985	19,656,958
General Revenue Fund	18,524,559	8,096,879
Bond Funds	11,681,285	11,485,340
Renewal and Replacement Fund	10,113,763	8,589,998
Operations and Maintenance Reserve Fund	8,181,163	7,707,475
Operations and Maintenance Fund	2,588,186	3,947,923
Passenger Facility Charge Fund	572,697	6,036,021
Federal Grant Fund	<u>460,273</u>	<u>310,072</u>
	\$ <u>95,628,963</u>	\$ <u>97,460,539</u>

The Authority's restricted investments and cash at September 30, 2000 and 1999, are held by the Authority's trustees. Investments are stated at amortized cost with accrued interest shown under a separate balance sheet caption. The carrying value of restricted investments and cash at September 30, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Money market/trust funds	\$ 37,636,105	\$ 34,318,688
Investment agreements	18,999,985	18,999,985
Short-term investments (commercial paper)	<u>38,992,873</u>	<u>44,141,866</u>
	\$ <u>95,628,963</u>	\$ <u>97,460,539</u>

The market value of restricted investments and cash at September 30, 2000 and 1999 approximates its carrying value.

Under Governmental Accounting Standards, credit risk associated with investments is categorized into three levels generally described as follows:

Category 1 - Insured or registered, or securities held by the Authority or its agent in the Authority's name.

Category 2 - Uninsured and unregistered, or securities held by a party other than the Authority or its agent, but in the Authority's name.

Category 3 - Uninsured and unregistered, with securities held by a party other than the Authority and not in the Authority's name.

The bond funds have been classified as Category 3 investments and the bond reserve funds have been classified as Category 1 investments in accordance with Governmental Accounting Standards Board (GASB) Statement #3. All other investments held by the trustees at September 30, 2000 and 1999, have been classified as Category 2 investments.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements September 30, 2000 and 1999

(5) Investments and Cash with Trustees, Continued

The Authority maintains its cash in bank accounts which at times may exceed federal depository insurance limits. At September 30, 2000, \$100,000 of deposits is covered by federal depository insurance with the remainder being uninsured and uncollateralized.

(6) Employees' Retirement Plan

Employees of the Authority hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the new Defined Contribution Retirement System (DCRS). Until 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 Defined Contribution Retirement System. Otherwise, they remained under the old plan.

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

As a result of the most recent actuarial valuation performed as of September 30, 1999, it has been determined that for the year ended September 30, 2000, a minimum combined employer and employee contribution rate of 33.41% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the year ended September 30, 2000. The effect of the Authority's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 23.91% to an effective rate of 21.71% for the year ended September 30, 2000. In recognition of the above, an accrual increase of 3.11% of covered payroll is necessary to adjust the unfunded liability based on the difference between the effective rate of 21.71% and the employer's statutory rate of 18.6%. The effective employer accrual rate for the year ended September 30, 1999 was 17.02%.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 5.5% per annum. The most recent actuarial valuation performed as of September 30, 1999, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Authority as a separate sponsor, the accrued unfunded liability at September 30, 2000 and 1999, may be materially different than that recorded in the accompanying financial statements.

The Guam Legislature enacted legislation during the year ended September 30, 2000 which offered retirement incentives for employees to retire or voluntarily separate from service with the Government of Guam and also required the Retirement Fund to incur the costs of providing certain supplemental retiree benefits. This legislation resulted in a significant increase in the Retirement Fund's unfunded accrued liability and is the primary reason for the increase in the employer's contribution rate for the year ended September 30, 2000.

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

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Notes to Financial Statements
September 30, 2000 and 1999

(6) Employees' Retirement Plan, Continued

Employer contributions into the DCRS are based on a statutory amount of 18.6% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.6% is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members who have completed five years of service, but have not attained the age of 55, are eligible only for the amount of member contributions plus any earnings thereon.

Retirement expense for the years ended September 30, 2000 and 1999 is as follows:

	<u>2000</u>	<u>1999</u>
Cash contributions	\$ 1,418,667	\$ 1,693,501
Adjustment of accrued unfunded liability	<u>232,982</u>	<u>(127,901)</u>
	\$ <u>1,651,649</u>	\$ <u>1,565,600</u>

(7) Leases

Duty Free Shoppers, Ltd.

In August, 1978, Duty Free Shoppers, Ltd. was selected as primary concessionaire for the airport terminal for a twenty year term commencing January 1982. Rent during the twenty year term shall be the greater of the following:

1. One hundred forty million seventy dollars (the "minimum guarantee"); or
2. Percentage rent which shall be as follows:
 - a. First through 15th concession year 10% of gross receipts
 - b. 16th concession year 11% of gross receipts
 - 17th concession year 12% of gross receipts
 - 18th concession year 13% of gross receipts
 - 19th concession year 14% of gross receipts
 - 20th concession year 15% of gross receipts

or

During the extended term, 85% of the percentage rent or the extended term percentage rent paid in the immediately preceding concession year.

The future minimum lease receipts under this lease at September 30, 2000, are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2001	\$ 10,732,524
2002	<u>5,714,128</u>
	\$ <u>16,446,652</u>

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Notes to Financial Statements
September 30, 2000 and 1999

(7) Leases, Continued

Duty Free Shoppers, Ltd., Continued

Duty Free Shoppers has deposited with the Authority an irrevocable letter of credit. In the event of default on the lease agreement by the concessionaire, the then outstanding face amount of the letter of credit may be drawn upon by the Authority in satisfaction of the concessionaire's liability under the lease. At September 30, 2000, the face amount of the letter of credit was \$3,012,000.

Other leases

The Authority has lease agreements with scheduled air carriers, various concessionaires and airport users providing the lessees with the use of the airport's system facilities, equipment and services. The agreements with all signatory airlines are in effect until 2003 with the terminal building rents and other user fees commencing October 1, 1996. Leases with five rent-a-car companies are on a month to month basis.

The future minimum rentals on noncancellable operating leases (excluding the Duty Free Shoppers, Ltd. lease described above) as of September 30, 2000, are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2001	\$ 5,559,425
2002	5,261,803
2003	<u>3,743,413</u>
Total minimum lease payments receivable	\$ <u>14,564,641</u>

(8) Deferred Income

Deferred income at September 30, 2000 and 1999, consists primarily of two balances. One is the remaining portion of the Duty Free Shoppers "minimum guarantee" (see note 7) rental payment of \$4,500,000 received on July 20, 2000 and \$5,060,000 received on July 20, 1999, respectively. Income is being recognized on a straight-line basis over the six-month term of the payment with the amortized portion included in concession fee revenues. The second balance is approximately \$719,272 and \$1,073,297 at September 30, 2000 and 1999, respectively, which resulted from a Authority's lessee paying for its tenant improvements. The Authority agreed to reduce the lessee's rent over five years as reimbursement for the improvements.

(9) Other Expense

The Guam Legislature enacted legislation which mandated that the Authority reimburse the General Fund for costs associated with air passenger inspections and related costs which were funded by the General Fund prior to April 1996. During 1999, the Authority paid \$3,261,287 to the General Fund for these costs. This payment was recorded as other expense in the accompanying financial statements.

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Notes to Financial Statements
September 30, 2000 and 1999

(10) Commitments and Contingencies

Environmental Clean-Up

In September 2000, the Navy transferred 1,417 acres of property to the Authority and the Government of Guam at no cost. In November 2000, the Navy paid the Authority \$10 million. In exchange for the payment, the Authority and the Government of Guam agreed to complete certain environmental clean-up work on the property even if the cost of the environmental clean-up work exceeds the \$10 million remitted by the Navy. The cost of the environmental clean-up work is presently not determinable. Accordingly, no loss has been recorded in the accompanying financial statements for this transaction.

Commitments

The Authority has commitments of \$2,118,871 under several contracts at September 30, 2000.

Self-insurance

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon coverage. The Authority has also adopted a policy of depositing \$1.5 million annually, reduced to \$1 million in 1999, in the Renewal and Replacement Fund to cover self-insured damage in the event of a natural catastrophe. The balance in the Renewal and Replacement Fund at September 30, 2000 is \$10,113,763.

Government of Guam General Fund

The Guam Legislature has enacted legislation which requires certain autonomous proprietary funds, including the Authority, to remit certain amounts to the Government of Guam General Fund on an annual basis. Management of the Authority is of the opinion that the wording of the legislation is not in compliance with federal requirements. Accordingly, no liability has been recorded for this contingency as of September 30, 2000.

Medicare

The Government of Guam and its component units, including the Authority, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998. Prior to that date, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security system. If the Government is found to be liable for Medicare payments on salaries and wages prior to October 1998, an indeterminate liability could result. It has been the practice of the Authority and all other component units of the Government of Guam that payment of this health insurance component is optional prior to October 1998. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Litigation

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

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements September 30, 2000 and 1999

(10) Commitments and Contingencies, Continued

Aircraft Crash

In August 1997, an airliner crashed on approach to the Airport runways, resulting in over two hundred fatalities and numerous injuries. In 1999, six claims relating to the crash were filed against the Authority. The Authority has denied all six claims. The Authority understands that the claimants have settled their claims with the Airlines and the U.S. Government and do not intend to pursue any action against the Authority. If the claimants decide to further pursue these actions, defense will be handled by the Authority's insurer. Management is of the opinion that the Authority will incur no liability as the result of these claims.

(11) Major Customers

The primary concessionaire accounted for 25% and 23% of total operating revenues during the years ended September 30, 2000 and 1999, respectively. Approximately 33% and 36% of the Authority's total revenues for the years ended September 30, 2000 and 1999, respectively, were derived from one airline customer.

(12) Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2000 and 1999, the Authority has assessed and collected from air carriers, fees for customs and agricultural inspection services rendered at the Airport terminal. Public Law 23-45 requires the Authority to remit all collections, within five days of receipt, to the Treasurer of Guam for deposit to the Customs, Agriculture and Quarantine Inspection Services Fund. At September 30, 2000 and 1999, the Authority has payables to the Treasurer of Guam of \$1,764,620 and \$1,175,935, respectively, for the above charges. The fees are not reflected as an expense or revenue by the Authority.

(13) Typhoon Damage

In December 1997, Guam was struck by a supertyphoon. The Authority has recorded in accounts receivable-United States Government, the following estimated recovery receivable from the Federal Emergency Management Agency (FEMA) at September 30, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Receivable from FEMA	\$ <u>414,128</u>	\$ <u>208,494</u>

The gain from typhoon and related recoveries for 1999 was determined as follows:

Estimated damage	\$ 1,015,653
Estimated recoveries	<u>(914,088)</u>
Total loss	101,565
Loss from 1998	<u>(164,047)</u>
Gain from typhoon and related recoveries in 1999	\$ <u>(62,482)</u>

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 2000 and 1999

(13) Typhoon Damage, Continued

In 2000, these estimates were revised as follows:

Estimated damage	\$ 1,257,499
Less costs to be capitalized	<u>(73,790)</u>
Total estimated losses	1,183,709
Estimated recoveries	<u>(1,119,722)</u>
Net loss	63,987
Cumulative net losses recognized through September 30, 1999	<u>(101,565)</u>
Gain from typhoon and related recoveries in 2000	\$ <u><u>(37,578)</u></u>

Damage and recoveries are based on currently available information. The Authority may be subject to additional typhoon repair costs as a result of the transfer of property and facilities from the Navy in September 2000. As a result, final typhoon costs and related recoveries may differ significantly from those estimated.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 1

Facilities and Systems Usage Charges Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Arrival facilities	\$ 5,071,948	\$ 5,795,968
Departure facilities	4,966,313	5,983,564
Public apron	2,533,543	2,320,142
Immigration	1,787,579	1,969,613
Passenger loading bridge usage charge	1,588,103	1,487,618
Landing fees	1,520,725	382,356
Fuel flowage fee	251,274	249,610
Utility recovery charge and other fees	224,578	102,780
	<u>\$ 17,944,063</u>	<u>\$ 18,291,651</u>

Schedule 2

Concession Fees Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
General merchandise	\$ 10,823,297	\$ 9,556,945
Ground transportation	2,921,494	2,591,518
Car rental	772,457	902,154
In-flight catering	870,068	815,298
Food and beverage	522,608	502,004
Parking lot	412,118	387,801
Advertising	408,916	321,078
Other	341,073	311,041
	<u>\$ 17,072,031</u>	<u>\$ 15,387,839</u>

Schedule 3

Rental Income Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating space		
- Airline	\$ 3,261,618	\$ 3,461,355
- Non-airline	1,626,908	1,731,809
Maintenance shop rentals	819,846	1,002,639
Cargo rentals	503,758	485,684
Other	308,842	314,666
	<u>\$ 6,520,972</u>	<u>\$ 6,996,153</u>

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 4

Contractual Services Years Ended September 30, 2000 and 1999

	2000	1999
Repairs and maintenance	\$ 4,972,787	\$ 4,450,416
Utilities and telephone	3,442,340	3,834,221
Professional services	2,075,613	1,759,550
Advertising and promotions	825,156	287,308
Insurance	531,664	474,399
Travel	443,363	97,382
Miscellaneous	780,290	425,040
	<u>\$ 13,071,213</u>	<u>\$ 11,328,316</u>

Schedule 5

Personnel Services Years Ended September 30, 2000 and 1999

	2000	1999
Salaries and wages	\$ 8,364,359	\$ 8,529,932
Retirement contributions	1,651,649	1,565,600
Insurance	495,787	521,753
	<u>\$ 10,511,795</u>	<u>\$ 10,617,285</u>

Schedule 6

Materials And Supplies Years Ended September 30, 2000 and 1999

	2000	1999
Equipment and vehicle maintenance and supplies	\$ 491,251	\$ 556,101
Electrical and plumbing	156,316	134,821
Office and security supplies	146,843	162,154
Building maintenance and supplies	133,234	129,309
Miscellaneous	35,352	112,951
	<u>\$ 962,996</u>	<u>\$ 1,095,336</u>

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 7

Insurance Coverage
Year Ended September 30, 2000

<u>Name of Insurer</u>	<u>Policy</u>	<u>Risk Coverage</u>
Lloyds of London	Airport Operators Liability	\$ 500,000,000
Lloyds of London	Property Insurance	\$ 200,000,000
Lloyds of London	Directors & Officers Liability	\$ 2,000,000
Calvo's - AIG	Automobile	\$ 1,000,000
Calvo's - AIG	Workers' Compensation	\$ 1,000,000
Calvo's - AIG	Honesty and Faithful Performance Bond	\$ 710,000
AON	Employment Practices Liability	\$ 2,000,000
AIG	Environmental Liability	\$ 100,000,000

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 8

Reconciliation of Historical Financial Results Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Net (loss) earnings (per financial statements):		
Operating revenues	\$ 52,498,538	\$ 50,104,630
Operating expenses	<u>24,694,052</u>	<u>23,318,448</u>
Operating income before depreciation	27,804,486	26,786,182
Depreciation	<u>15,688,724</u>	<u>15,952,051</u>
	12,115,762	10,834,131
Interest and other expense	<u>14,290,183</u>	<u>18,062,730</u>
Net loss	<u><u>\$ (2,174,421)</u></u>	<u><u>\$ (7,228,599)</u></u>
Net Revenues (per Bond Resolution):		
Revenues	\$ 50,740,847	\$ 48,602,120
Operation and maintenance expenses	<u>24,694,052</u>	<u>23,318,448</u>
Net revenues	26,046,795	25,283,672
Asset purchases	10,535	139,079
Required fund deposits	<u>10,020,424</u>	<u>10,676,823</u>
Net revenues available for debt service	<u><u>\$ 16,015,836</u></u>	<u><u>\$ 14,467,770</u></u>
Reconciliation:		
Net loss	\$ (2,174,421)	\$ (7,228,599)
Add back:		
Depreciation	15,688,724	15,952,051
Interest and other expense	14,290,183	18,062,730
Deduct:		
Interest income on funds related to construction	(1,757,691)	(1,502,510)
Asset purchases	(10,535)	(139,079)
Required fund deposits	<u>(10,020,424)</u>	<u>(10,676,823)</u>
	<u><u>\$ 16,015,836</u></u>	<u><u>\$ 14,467,770</u></u>

See accompanying independent auditors' report.