GUAM INTERNATIONAL AIRPORT AUTHORITY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 1998 AND 1997

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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, 1998 and 1997, 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.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. Guam International Airport Authority has included such disclosures in note 13. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support Guam International Airport Authority's disclosures with respect to the year 2000 issue made in note 13. Further, we do not provide assurance that Guam International Airport Authority is or will be year 2000 ready, that Guam International Airport Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Guam International Airport Authority does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, such financial statements present fairly, in all material respects, the financial position of Guam International Airport Authority as of September 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 1998 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.

Deloitte & Touche LLP

December 16, 1998

GUAM INTERNATIONAL AIRPORT AUTHORITY

Balance Sheets
September 30, 1998 and 1997

ASSETS	1998	1997
Current assets:		
Cash	$ 1,641,421	$ 3,699,048
Accounts receivable:		
Trade, net of allowance for doubtful accounts of $446,791 in 1998 and $143,107 in 1997	8,311,206	9,559,442
United States Government (note 14)	8,895,608	3,418,143
Prepaid insurance	6,849	266,707
Total current assets	18,855,084	16,943,340
Restricted assets (notes 4 and 5):		
General Revenue Bonds, Series 1993:		
Investments and cash with trustees	99,195,195	120,985,210
Accrued interest	1,390,924	1,085,823
Total restricted assets	100,586,119	122,071,033
Airport facilities, at cost less accumulated depreciation (note 3)	296,066,233	266,910,553
Deferred bond issue costs	2,767,338	2,952,289
	$ 418,274,774	$ 408,877,215

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Balance Sheets, Continued
September 30, 1998 and 1997

LIABILITIES AND EQUITY	1998	1997
Current liabilities:		
Accounts payable - trade (note 11)	$ 4,708,082	$ 7,203,675
Other liabilities	1,422,500	1,417,936
Deferred income (note 8)	4,049,193	2,849,952
Total current liabilities other than those payable from restricted assets	10,179,775	11,471,563
Payable from restricted assets:		
General Revenue Bonds, Series 1993 (note 4):		
Current installments	3,705,000	3,525,000
Accrued interest	7,642,722	7,734,447
Accounts payable - construction	6,713,962	8,067,243
Total payable from restricted assets	18,061,684	19,326,690
Total current liabilities	28,241,459	30,798,253
Accrued unfunded liability to retirement fund (note 6)	2,430,105	2,558,005
Long-term bonds payable, less current installments (note 4):		
General Revenue Bonds, Series 1993	227,501,018	231,132,562
Total liabilities	258,172,582	264,488,820
Equity:		
Contributed capital:		
Government of Guam	1,439,712	1,439,712
United States Government	71,508,135	64,155,155
Other	37,971	37,971
Total contributed capital	72,985,818	65,632,838
Retained earnings	87,116,374	78,755,557
Total equity	160,102,192	144,388,395
Commitments and contingencies (notes 7, 9, 13 and 14)		
	$ 418,274,774	$ 408,877,215

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Operations and Equity
Years Ended September 30, 1998 and 1997

	1998	1997
Revenues (notes 4 and 10):		
Facilities and systems usage charges	$ 22,245,971	$ 28,559,582
Concession fees (note 8)	15,822,872	14,325,547
Rental income	8,086,697	4,680,466
Miscellaneous	1,025,386	1,008,782
Total revenues	47,180,926	48,574,377
Operating costs and expenses:		
Contractual services	12,846,290	10,332,176
Depreciation and amortization	12,513,172	11,163,535
Personnel services	10,301,539	9,853,594
Materials and supplies	1,348,878	1,121,189
Bad debt expense	374,789	114,922
Total operating costs and expenses	37,384,668	32,585,416
Earnings from operations	9,796,258	15,988,961
Other income (expense):		
Interest income	6,177,734	6,222,599
Interest expense	(11,666,713)	(11,753,677)
Passenger facility charge income	4,217,585	4,957,969
Typhoon losses (note 14)	(164,047)	-
Total other expense, net	(1,435,441)	(573,109)
Net earnings	8,360,817	15,415,852
Retained earnings at beginning of year	78,755,557	63,339,705
Retained earnings at end of year	87,116,374	78,755,557
Contributed capital at beginning of year	65,632,838	58,555,611
Contributions by the United States Government	7,352,980	7,077,227
Contributed capital at end of year	72,985,818	65,632,838
Equity at end of year	$ 160,102,192	$ 144,388,395

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Cash Flows
Years Ended September 30, 1998 and 1997

	1998	1997
Cash flows from operating activities:		
Cash received from customers	$ 53,471,199	$ 52,820,039
Cash paid to suppliers and employees for goods and services	(28,003,317)	(18,698,753)
Net cash provided by operating activities	25,467,882	34,121,286
Cash flows from investing activities:		
Proceeds from the sale of investments with trustee	21,790,015	27,089,667
Investment interest income	5,872,633	5,556,042
Net cash provided by investing activities	27,662,648	32,645,709
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities	(42,577,325)	(54,506,160)
Principal payment on General Revenue Bonds, Series 1993	(3,451,544)	(3,285,923)
Interest paid on General Revenue Bonds, Series 1993	(11,758,438)	(11,762,499)
U.S. Government capital contributions	2,599,150	6,092,649
Net cash used for capital and related financing activities	(55,188,157)	(63,461,933)
Net (decrease) increase in cash	(2,057,627)	3,305,062
Cash at beginning of year	3,699,048	393,986
Cash at end of year	$ 1,641,421	$ 3,699,048

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 1998 and 1997

	1998	1997
Reconciliation of earnings from operations and other income to net cash provided by operating activities:		
Earnings from operations	$ 9,796,258	$ 15,988,961
Passenger facility charge income	4,217,585	4,957,969
Typhoon losses (note 14)	(164,047)	-
	13,849,796	20,946,930
Adjustments to reconcile earnings from operations and other income to net cash provided by operating activities:		
Depreciation and amortization	12,513,172	11,163,535
Bad debt expense	374,789	114,922
Decrease (increase) in assets:		
Accounts receivable - trade	873,447	(1,192,687)
Receivable from FEMA	(723,634)	-
Increase (decrease) in liabilities:		
Accounts payable - trade	(2,495,593)	2,528,688
Accrued unfunded liability to retirement fund	(127,900)	(127,900)
Other liabilities	4,564	204,270
Deferred income	1,199,241	483,528
Total adjustments	11,618,086	13,174,356
Net cash provided by operating activities	$ 25,467,882	$ 34,121,286

See accompanying notes to financial statements.

(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 (GIAT). 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

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 25 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. Because the Authority's bonds payable are tax-exempt, 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 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.

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

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.

(3) Airport Facilities

Airport facilities at September 30, 1998 and 1997, consist of the following:

	1998	1997
Terminal building	$ 285,426,964	$ 210,159,972
Apron area	25,253,485	25,209,888
Terminal area	22,762,719	7,087,755
Other buildings	19,496,600	17,733,000
Airfield area	11,169,576	9,527,046
Support facilities	3,894,174	3,695,799
	368,003,518	273,413,460
Less accumulated depreciation	82,535,070	70,206,849
	285,468,448	203,206,611
Construction in progress	10,597,785	63,703,942
	$ 296,066,233	$ 266,910,553

The above amounts include capitalized interest. Interest capitalized for the years ended September 30, 1998 and 1997, was $3,692,189 and $3,789,296, 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.

The Authority has a joint use agreement with the U.S. Navy for the former Naval Air Station (NAS) property. Under terms of the agreement, the Authority obtained the right to use certain NAS property for continued airport operations. Additionally, the Authority assumed full responsibility and associated costs for all operations relating to the Guam International Airport. The agreement, among other matters, specifies that the Navy may terminate the agreement during a national emergency.

The Authority also has a lease agreement for the NAS property with the Federal government effective September 21, 1995 for a term of five years. As consideration for the use of the leased premises, the Authority has agreed to provide security and maintenance costs.

(4) Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 1998 and 1997, consist of the following:

	1998	1997
General Revenue Bonds, Series 1993 (original issue of $240,015,000): Varying interest rates (5.2% - 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.	$ 232,305,000	$ 235,830,000
Less current installments	3,705,000	3,525,000
	228,600,000	232,305,000
Less net unamortized discount on bonds	1,098,982	1,172,438
	$ 227,501,018	$ 231,132,562

(4) Long-Term Revenue Bonds Payable, Continued

Bond principal and mandatory sinking fund installments payable by the Authority to the bond trustees through 2003 and subsequent years are as follows:

Year Ending September 30,	
1999	$ 3,705,000
2000	3,910,000
2001	4,130,000
2002	4,375,000
2003	4,660,000
Subsequent years	211,525,000
	$ 232,305,000

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, 1998 and 1997.

(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, 1998 and 1997, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	1998	1997
Capital Improvement Fund	$ 28,018,982	$ 39,504,850
Bond Reserve Funds	18,999,985	18,999,985
Bond Funds	11,348,006	10,004,186
General Revenue Fund	9,303,681	5,748,856
Operations and Maintenance Fund	8,967,829	6,145,055
Operations and Maintenance Reserve Fund	7,338,526	7,044,258
Renewal and Replacement Fund	7,236,622	5,504,021
Passenger Facility Charge Fund	4,322,226	7,131,392
Federal Grant Fund	2,142,650	5,837,617
Construction Fund	1,516,688	13,991,644
Special Facility Fund	-	1,073,290
Net unamortized premium	-	56
	$ 99,195,195	$ 120,985,210

(5) Investments and Cash, Continued

The Authority's restricted investments and cash at September 30, 1998 and 1997, 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, 1998 and 1997 are as follows:

	1998	1997
Money market/trust funds	$ 40,785,417	$ 101,725,169
U.S. Treasury notes (federal bonds)	20,566,716	260,056
Investment agreements	18,999,985	18,999,985
Short-term investments (commercial paper)	18,843,077	-
	$ 99,195,195	$ 120,985,210

The market value of restricted investments and cash at September 30, 1998 and 1997 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, 1998, have been classified as Category 2 investments.

The Authority maintains its cash in bank accounts which at times may exceed federal depository insurance limits. At September 30, 1998, $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 1998, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, have the option to switch to the Defined Contribution Retirement System. Otherwise, they remain 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.

(6) Employees' Retirement Plan, Continued

As a result of the most recent actuarial valuation performed as of September 30, 1995, it has been determined that for the year ended September 30, 1998, a minimum combined employer and employee contribution rate of 28.1% 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, 1998. The effect of the Authority's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 18.6% to an effective rate of 17.03% for the year ended September 30, 1998. In recognition of the above, an accrual reduction of 1.57% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 17.03% and the employer's statutory rate of 18.6%. The effective employer accrual rate for the year ended September 30, 1997 was 16.9%.

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 6.5% per annum. The most recent actuarial valuation performed as of September 30, 1995, 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, 1998 and 1997 may be materially different than that recorded in the accompanying financial statements.

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.

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, 1998 and 1997 is as follows:

	1998	1997
Cash contributions	$ 1,688,677	$ 1,583,583
Reduction of accrued unfunded liability	(127,900)	(127,900)
	$ 1,560,777	$ 1,455,683

(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 and revenue under this lease at September 30, 1998, are as follows:

Year Ending September 30,	Receipts	Revenue
1999	$ 9,200,000	$ 8,645,000
2000	9,560,000	9,897,861
2001	10,000,035	9,396,672
2002	5,500,035	8,818,027
	$ 34,260,070	$ 36,757,560

On February 4, 1993, the "Third Agreement to Amend Concession Agreement" was signed. The amendment calls for an additional $20,000 rent per month beginning the month after the initial phase of the airport expansion project is completed. The amendment further stipulates that while phase II of the airport expansion is under construction, the additional rent will be prorated based on the additional leased space of phase I and phase II. The total area of the additional leased space of phases I and II have not yet been determined by the Authority. Accordingly, the additional rent has not been incorporated into the above schedule. Upon determination of the additional leased space, the Authority will seek to recover the additional prorated rent retroactive to the date of occupancy of phase I.

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, 1998, the face amount of the letter of credit was $3,426,000.

(7) Leases, Continued

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 six rent-a-car companies are in effect until September 10, 1999.

The future minimum rentals on noncancellable operating leases (excluding the Duty Free Shoppers, Ltd. lease described above) as of September 30, 1998, are as follows:

Year Ending September 30,	
1999	$ 8,711,863
2000	7,022,061
2001	6,580,258
2002	5,176,273
2003	3,642,038
Subsequent years	272,637
Total minimum lease payments receivable	$ 31,405,130

(8) Deferred Income

Deferred income at September 30, 1998 and 1997, consists primarily of two balances. One is the remaining portion of the Duty Free Shoppers "minimum guarantee" (see note 7) rental payment of $4,140,000 received on July 20, 1998 and $4,400,000 received on July 20, 1997, 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 other balance is approximately $1,300,000 which resulted from the 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) Commitments and Contingencies

Commitments

The Authority has commitments of $4,780,000 under several contracts associated with the expansion of the air terminal at September 30, 1998. The Authority also has a commitment of $1,000,000 with a company for maintenance of the air terminal’s generators and baggage handling systems.

Construction Claims

The general contractor on the new airport project has filed claims for equitable adjustment, delay and other compensation as the result of certain changed conditions and requirements of the project.

Various claims have arisen between the Authority’s general contractor and one of its subcontractors associated with the new terminal construction.

(9) Commitments and Contingencies, Continued

Construction Claims, Continued

The ultimate resolution of these claims and the impact on the Authority are indeterminable as of the date of this report. No provision for these contingencies has been recorded in the accompanying financial statements.

Typhoon Damage

The general contractor and a subcontractor on the airport reported damage of $1,477,345 as a result of Typhoon Paka. The insurance company has denied coverage under the Authority's Builder's Risk policy. In addition, there is a dispute between the Authority and the general contractor and the subcontractor regarding the party ultimately responsible for paying the deductible on insurance claims due to the typhoon damage. The ultimate resolution of these matters and the impact on the Authority are indeterminable as of the date of this report. No provision for these contingencies has been recorded in the accompanying financial statements.

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. The Legislature has also enacted legislation which mandates that the Authority reimburse the General Fund $3.3 million for costs associated with air passenger inspections which were funded by the General Fund.

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 these contingencies as of September 30, 1998.

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 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, 1998 is $7,236,622.

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.

(10) Major Customers

The primary concessionaire accounted for 20% and 16% of total operating revenues during the years ended September 30, 1998 and 1997, respectively. Approximately 34% and 38% of the Authority's total revenues for the years ended September 30, 1998 and 1997, respectively, were derived from one airline customer.

(11) Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 1998 and 1997, the Authority has assessed and collected from air carriers, charges for customs and agricultural inspection services rendered at GIAT. 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, 1998 and 1997, the Authority has payables to the Treasurer of Guam of $1,933,609 and $1,959,002, respectively, for the above charges. Accounts payable at September 30, 1997 also includes $2,181,971 of surplus customs and inspection fees collected from airlines due to a retroactive change in the fee rate. These surplus fees were applied against airline receivables or repaid during the year ended September 30, 1998.

(12) Related Party Transactions

Several of the Authority’s board members hold management positions with private companies with which the Authority, from time to time, will engage in business transactions. The Authority’s management is of the opinion that its transactions with related parties are executed under the same laws and conditions as are entered into with unrelated entities.

(13) Year 2000 Issue

The worldwide challenge facing organizations, commonly referred to as the Year 2000 (Y2K) issue, is the result of problems that may be encountered with date-related transactions on systems that have historically recognized years using two digits vs. four digits, e.g.; 98 versus 1998. These systems will potentially recognize the “00” as the year 1900 instead of 2000. On the surface, the Y2K problem sounds simple enough; however, the implications of this problem are far reaching and could impact a full range of business services and activities.

The Authority recognizes the potential implications of the Y2K issue on systems that may contain date-related transactions, data, embedded chips, etc. The Authority has assessed the impact of the Y2K issue on its operations and is now in the process of renovating or replacing, as necessary, the computer applications and business processes to provide for continued services in the new millennium. An assessment of the preparedness of external entities that interface with the Authority is also ongoing. There can be no assurance that there will not be a material adverse effect on the Authority if its actions and/or those of related third parities fail to address all significant issues in a timely manner.

The costs of the Authority’s Y2K compliance efforts are expensed as incurred and are being funded with cash flows from operations. At this time, the costs of these efforts are not expected to be material to the Authority’s financial position or the results of their operations in any given period.

Time and cost estimates are based on currently available information. Actual results could differ from those estimated.

(14) Typhoon Damage

In December 1997, Guam was struck by a supertyphoon. The Authority's estimated typhoon damage and related recovery receivable from the Federal Emergency Management Agency (FEMA) at September 30, 1998 are as follows:

Estimated damage	$ 887,681
FEMA recoveries	723,634
Typhoon loss	$ 164,047

Damage and recoveries are based on currently available information. Actual results may differ from those estimated.

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Board of Directors
Guam International Airport Authority:

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.

Deloitte + Touche LLP

December 16, 1998

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 1

Facilities and Systems Usage Charges
Years Ended September 30, 1998 and 1997

	1998	1997
Arrival facilities	$ 7,315,929	$ 6,177,247
Departure facilities	4,499,960	3,972,314
Landing fees	3,369,571	10,086,411
Immigration	2,766,793	2,839,313
Passenger loading bridge usage charge	2,279,430	2,104,963
Public apron	1,453,408	2,937,910
Fuel flowage fee	311,749	408,371
Utility recovery charge and other fees	249,131	33,053
	$ 22,245,971	$ 28,559,582

Schedule 2

Concession Fees
Years Ended September 30, 1998 and 1997

	1998	1997
General merchandise	$ 9,488,775	$ 7,844,003
Ground transportation	2,910,815	3,384,413
In-flight catering	893,318	987,320
Car rental	878,662	800,071
Food and beverage	504,993	488,836
Advertising	496,740	345,969
Parking lot	386,469	250,234
Other	263,100	224,701
	$ 15,822,872	$ 14,325,547

Schedule 3

Rental Income
Years Ended September 30, 1998 and 1997

	1998	1997
Operating space		
- Airline	$ 4,232,526	$ 3,444,234
- Non-airline	2,056,267	190,349
Maintenance shop rentals	1,010,659	426,749
Cargo rentals	455,091	301,702
Other	332,154	317,432
	$ 8,086,697	$ 4,680,466

See accompanying independent auditors' report on additional information.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 4

Contractual Services
Years Ended September 30, 1998 and 1997

	1998	1997
Repairs and maintenance	$ 4,043,463	$ 2,482,192
Professional services	3,547,889	2,028,671
Utilities and telephone	3,544,789	4,169,198
Insurance	772,959	836,703
Advertising and promotions	212,112	206,064
Travel	162,417	129,678
Miscellaneous	562,661	479,670
	$ 12,846,290	$ 10,332,176

Schedule 5

Personnel Services
Years Ended September 30, 1998 and 1997

	1998	1997
Salaries and wages	$ 8,410,657	$ 8,051,839
Retirement contributions	1,536,241	1,455,683
Insurance	354,641	346,072
	$ 10,301,539	$ 9,853,594

Schedule 6

Materials And Supplies
Years Ended September 30, 1998 and 1997

	1998	1997
Vehicle maintenance and supplies	$ 640,062	$ 354,550
Building maintenance and supplies	174,223	214,302
Office supplies	242,981	285,566
Electrical and plumbing	113,596	115,219
Miscellaneous	178,016	151,552
	$ 1,348,878	$ 1,121,189

See accompanying independent auditors' report on additional information.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 7

Insurance Coverage
Year Ended September 30, 1998

Name of Insurer	Policy	Date	Amount of Risk Coverage
Lloyds of London	Airport Operators Liability	September 30, 1998	$400,000,000
Lloyds of London	Property Insurance	September 30, 1998	$200,000,000
Chubb Insurance Co.	Directors & Officers Liability	September 30, 1998	$ 2,000,000
National Union Fire Insurance Company	Automobile	September 30, 1998	$ 1,000,000
National Union Fire Insurance Company	Workers' Compensation	September 30, 1998	$ 1,000,000
American Home Assurance Co.	Honesty and Faithful Performance Bond	September 30, 1998	$ 710,000

See accompanying independent auditors' report on additional information.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 8

Reconciliation of Historical Financial Results
Years Ended September 30, 1998 and 1997

	1998	1997
Net earnings (per financial statements):		
Operating revenues	$ 57,576,245	$ 59,754,945
Operating expenses	24,871,496	21,421,881
Operating income before depreciation	32,704,749	38,333,064
Depreciation	12,513,172	11,163,535
	20,191,577	27,169,529
Interest and other expense	11,830,760	11,753,677
Net earnings	$ 8,360,817	$ 15,415,852
Net Revenues (per Bond Resolution):		
Revenues	$ 55,086,535	$ 56,184,878
Operation and maintenance expenses	24,871,496	21,421,881
Net revenues	30,215,039	34,762,997
Asset purchases	431,540	596,417
Required fund deposits	10,026,742	11,018,117
Net revenues available for debt service	$ 19,756,757	$ 23,148,463
Reconciliation:		
Net earnings	$ 8,360,817	$ 15,415,852
Add back:		
Depreciation	12,513,172	11,163,535
Interest and other expense	11,830,760	11,753,677
Deduct:		
Interest income on funds related to construction	(2,489,710)	(3,570,067)
Asset purchases	(431,540)	(596,417)
Required deposits	(10,026,742)	(11,018,117)
	$ 19,756,757	$ 23,148,463

See accompanying independent auditors' report on additional information.