

GUAM INTERNATIONAL AIRPORT AUTHORITY

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 1999 AND 1998



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, 1999 and 1998, 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 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.

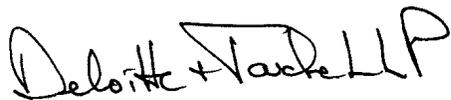
In our report dated December 16, 1998, we qualified our opinion on the 1998 financial statements because insufficient audit evidence existed to support Guam International Airport Authority's disclosures required by Governmental Accounting Standards Board (GASB) Technical Bulletin (TB) 98-1, "Disclosures about Year 2000 Issues." As described in note 14, Guam International Airport Authority has elected to retroactively adopt the provisions of GASB TB 99-1, "Disclosures about Year 2000 Issues-an amendment of Technical Bulletin 98-1." Accordingly, our present opinion on the 1998 financial statements, as expressed herein, is different from our prior report on the 1998 financial statements.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Guam International Airport Authority as of September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effect, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that Guam International Airport Authority is or will become year 2000 compliant, 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 are or will become year 2000 compliant.

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 20, 1999, 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 written in a cursive, flowing style.

December 20, 1999

GUAM INTERNATIONAL AIRPORT AUTHORITY

Balance Sheets September 30, 1999 and 1998

| <u>ASSETS</u> | <u>1999</u> | <u>1998</u> |
|---|-----------------------|-----------------------|
| Current assets: | | |
| Cash | \$ 1,241,807 | \$ 1,641,421 |
| Accounts receivable: | | |
| Trade, net of allowance for doubtful accounts of \$515,471 in 1999 and \$446,791 in 1998 | 5,914,415 | 8,311,206 |
| United States Government | 962,449 | 8,895,608 |
| Prepaid expense | <u>2,282</u> | <u>6,849</u> |
| Total current assets | <u>8,120,953</u> | <u>18,855,084</u> |
| Restricted assets (notes 4 and 5): | | |
| General Revenue Bonds, Series 1993: | | |
| Investments and cash with trustees | 97,460,539 | 99,195,195 |
| Accrued interest | <u>480,012</u> | <u>1,390,924</u> |
| Total restricted assets | <u>97,940,551</u> | <u>100,586,119</u> |
| Airport facilities, at cost less accumulated depreciation (note 3) | 295,133,231 | 296,066,233 |
| Deferred bond issue costs | <u>2,603,162</u> | <u>2,767,338</u> |
| | <u>\$ 403,797,897</u> | <u>\$ 418,274,774</u> |

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Balance Sheets, Continued
September 30, 1999 and 1998

| <u>LIABILITIES AND EQUITY</u> | <u>1999</u> | <u>1998</u> |
|---|-----------------------|-----------------------|
| Current liabilities: | | |
| Accounts payable - trade (note 12) | \$ 3,507,032 | \$ 4,708,082 |
| Other liabilities | 367,127 | 516,500 |
| Deferred income (note 8) | 4,300,581 | 4,049,797 |
| Current portion of annual leave | <u>425,006</u> | <u>364,142</u> |
| Total current liabilities other than those payable from restricted assets | <u>8,599,746</u> | <u>9,638,521</u> |
| Payable from restricted assets: | | |
| General Revenue Bonds, Series 1993 (note 4): | | |
| Current installments | 3,910,000 | 3,705,000 |
| Accrued interest | 7,539,942 | 7,642,722 |
| Accounts payable - construction | <u>1,150,859</u> | <u>6,713,962</u> |
| Total payable from restricted assets | <u>12,600,801</u> | <u>18,061,684</u> |
| Total current liabilities | <u>21,200,547</u> | <u>27,700,205</u> |
| Accrued unfunded liability to retirement fund (note 6) | 2,302,204 | 2,430,105 |
| Long-term portion of annual leave | 637,508 | 541,254 |
| Long-term bonds payable, less current installments (note 4): | | |
| General Revenue Bonds, Series 1993 | <u>223,656,223</u> | <u>227,501,018</u> |
| Total liabilities | <u>247,796,482</u> | <u>258,172,582</u> |
| Equity: | | |
| Contributed capital: | | |
| Government of Guam | 1,439,712 | 1,439,712 |
| United States Government | 74,635,957 | 71,508,135 |
| Other | <u>37,971</u> | <u>37,971</u> |
| Total contributed capital | <u>76,113,640</u> | <u>72,985,818</u> |
| Retained earnings | <u>79,887,775</u> | <u>87,116,374</u> |
| Total equity | <u>156,001,415</u> | <u>160,102,192</u> |
| Commitments and contingencies (notes 7, 10 and 13) | \$ <u>403,797,897</u> | \$ <u>418,274,774</u> |

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Operations and Equity Years Ended September 30, 1999 and 1998

| | <u>1999</u> | <u>1998</u> |
|---|-----------------------|-----------------------|
| Revenues (notes 4 and 11): | | |
| Facilities and systems usage charges | \$ 18,291,651 | \$ 22,245,971 |
| Concession fees (note 8) | 15,387,839 | 15,822,872 |
| Rental income | 6,996,153 | 8,086,697 |
| Miscellaneous | <u>991,168</u> | <u>1,025,386</u> |
| Total revenues | <u>41,666,811</u> | <u>47,180,926</u> |
| Operating costs and expenses: | | |
| Contractual services | 11,328,316 | 12,846,290 |
| Personnel services | 10,617,285 | 10,301,539 |
| Materials and supplies | 1,095,336 | 1,348,878 |
| Bad debt expense | <u>277,511</u> | <u>374,789</u> |
| Total operating costs and expenses before depreciation | 23,318,448 | 24,871,496 |
| Depreciation and amortization | <u>15,952,051</u> | <u>12,513,172</u> |
| Total operating costs and expenses | <u>39,270,499</u> | <u>37,384,668</u> |
| Earnings from operations | <u>2,396,312</u> | <u>9,796,258</u> |
| Other income (expense): | | |
| Interest income | 4,410,492 | 6,177,734 |
| Interest expense | (14,798,720) | (11,666,713) |
| Passenger facility charge income | 4,027,327 | 4,217,585 |
| Typhoon gain (loss) (note 13) | 62,482 | (164,047) |
| Other expenses (note 9) | <u>(3,326,492)</u> | <u>-</u> |
| Total other expense, net | <u>(9,624,911)</u> | <u>(1,435,441)</u> |
| Excess of (expenses over revenue) revenue over expenses | (7,228,599) | 8,360,817 |
| Retained earnings at beginning of year | <u>87,116,374</u> | <u>78,755,557</u> |
| Retained earnings at end of year | <u>79,887,775</u> | <u>87,116,374</u> |
| Contributed capital at beginning of year | 72,985,818 | 65,632,838 |
| Contributions by the United States Government | <u>3,127,822</u> | <u>7,352,980</u> |
| Contributed capital at end of year | <u>76,113,640</u> | <u>72,985,818</u> |
| Equity at end of year | \$ <u>156,001,415</u> | \$ <u>160,102,192</u> |

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Cash Flows Years Ended September 30, 1999 and 1998

| | <u>1999</u> | <u>1998</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 48,062,209 | \$ 53,471,199 |
| Cash paid to suppliers and employees for goods and services | <u>(27,814,614)</u> | <u>(28,003,317)</u> |
| Net cash provided by operating activities | <u>20,247,595</u> | <u>25,467,882</u> |
| Cash flows from investing activities: | | |
| Proceeds from the sale of investments with trustee | 1,734,656 | 21,790,015 |
| Investment interest income | <u>5,321,404</u> | <u>5,872,633</u> |
| Net cash provided by investing activities | <u>7,056,060</u> | <u>27,662,648</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of airport facilities | (20,413,409) | (42,577,325) |
| Principal payment on General Revenue Bonds, Series 1993 | (3,705,000) | (3,451,544) |
| Interest paid on General Revenue Bonds, Series 1993 | (14,836,294) | (11,758,438) |
| U.S. Government capital contributions | <u>11,251,434</u> | <u>2,599,150</u> |
| Net cash used for capital and related financing activities | <u>(27,703,269)</u> | <u>(55,188,157)</u> |
| Net decrease in cash | (399,614) | (2,057,627) |
| Cash at beginning of year | <u>1,641,421</u> | <u>3,699,048</u> |
| Cash at end of year | \$ <u>1,241,807</u> | \$ <u>1,641,421</u> |

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 1999 and 1998

| | <u>1999</u> | <u>1998</u> |
|--|----------------------|----------------------|
| Reconciliation of earnings from operations and other income (expense) to net cash provided by operating activities: | | |
| Earnings from operations | \$ 2,396,312 | \$ 9,796,258 |
| Passenger facility charge income | 4,027,327 | 4,217,585 |
| Typhoon gain (loss) (note 13) | 62,482 | (164,047) |
| Other expense (note 9) | <u>(3,326,492)</u> | <u>-</u> |
| | <u>3,159,629</u> | <u>13,849,796</u> |
| Adjustments to reconcile earnings from operations and other income (expense) to net cash provided by operating activities: | | |
| Depreciation and amortization | 15,952,051 | 12,513,172 |
| Bad debt expense | 277,511 | 374,789 |
| Decrease (increase) in assets: | | |
| Accounts receivable - trade | 2,119,280 | 873,447 |
| Receivable from FEMA | (190,454) | (723,634) |
| Increase (decrease) in liabilities: | | |
| Accounts payable - trade | (1,201,050) | (2,495,593) |
| Accrued unfunded liability to retirement fund | (127,901) | (127,900) |
| Other liabilities | 9,739 | 4,564 |
| Deferred income | <u>248,790</u> | <u>1,199,241</u> |
| Total adjustments | <u>17,087,966</u> | <u>11,618,086</u> |
| Net cash provided by operating activities | \$ <u>20,247,595</u> | \$ <u>25,467,882</u> |

See accompanying notes to financial statements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 1999 and 1998

(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

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.

Effective October 1, 1998, the Authority increased the estimated useful life of the phase 1 portion of the new terminal building from 25 to 35 years. The effect of this change in accounting estimate was to reduce the net loss for the year ended September 30, 1999 by \$1,714,846.

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.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 1999 and 1998

(2) Summary of Significant Accounting Policies, Continued

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.

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.

Reclassifications. Certain balances in the 1998 financial statements have been reclassified to correspond to the 1999 presentation.

(3) Airport Facilities

Airport facilities at September 30, 1999 and 1998, consist of the following:

| | <u>1999</u> | <u>1998</u> |
|-------------------------------|-----------------------|-----------------------|
| Terminal building | \$ 292,142,869 | \$ 285,426,964 |
| Apron area | 25,253,485 | 25,253,485 |
| Terminal area | 22,762,719 | 22,762,719 |
| Other buildings | 19,496,600 | 19,496,600 |
| Airfield area | 11,236,546 | 11,169,576 |
| Support facilities | <u>3,946,478</u> | <u>3,894,174</u> |
| | 374,838,697 | 368,003,518 |
| Less accumulated depreciation | <u>98,322,946</u> | <u>82,535,070</u> |
| | 276,515,751 | 285,468,448 |
| Construction in progress | <u>18,617,480</u> | <u>10,597,785</u> |
| | <u>\$ 295,133,231</u> | <u>\$ 296,066,233</u> |

Interest capitalized for the years ended September 30, 1999 and 1998, was \$281,165 and \$3,692,189, 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.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 1999 and 1998

(3) Airport Facilities, Continued

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.

The general contractor on the new airport project had filed claims for equitable adjustment delay and other compensation as the result of certain changed conditions and requirements of the project. In March 1999, the Authority entered into a settlement agreement and paid the general contractor \$6.7 million. As a part of the settlement agreement, the Authority has been released from all claims the general contractor had or might have had up through the settlement date. The settlement amount has been recorded as part of the terminal building.

(4) Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 1999 and 1998, consist of the following:

| | <u>1999</u> | <u>1998</u> |
|---|-----------------------|-----------------------|
| General Revenue Bonds, Series 1993 (original issue of \$240,015,000): | | |
| Varying interest rates (5.4% - 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. | \$ 228,600,000 | \$ 232,305,000 |
| Less current installments | <u>3,910,000</u> | <u>3,705,000</u> |
| | 224,690,000 | 228,600,000 |
| Less net unamortized discount on bonds | <u>1,033,777</u> | <u>1,098,982</u> |
| | \$ <u>223,656,223</u> | \$ <u>227,501,018</u> |

Bond principal and mandatory sinking fund installments payable by the Authority to the bond trustees through 2004 and subsequent years are as follows:

Year Ending September 30,

| | |
|------------------|-----------------------|
| 2000 | \$ 3,910,000 |
| 2001 | 4,130,000 |
| 2002 | 4,375,000 |
| 2003 | 4,660,000 |
| 2004 | 4,950,000 |
| Subsequent years | <u>206,575,000</u> |
| | \$ <u>228,600,000</u> |

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 1999 and 1998

(4) Long-Term Revenue Bonds Payable, Continued

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, 1999 and 1998.

(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, 1999 and 1998, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

| | <u>1999</u> | <u>1998</u> |
|---|----------------------|----------------------|
| Capital Improvement Fund | \$ 31,629,873 | \$ 28,018,982 |
| Bond Reserve Funds | 19,656,958 | 18,999,985 |
| Bond Funds | 11,485,340 | 11,348,006 |
| Renewal and Replacement Fund | 8,589,998 | 7,236,622 |
| General Revenue Fund | 8,096,879 | 9,303,681 |
| Operations and Maintenance Reserve Fund | 7,707,475 | 7,338,526 |
| Passenger Facility Charge Fund | 6,036,021 | 4,322,226 |
| Operations and Maintenance Fund | 3,947,923 | 8,967,829 |
| Federal Grant Fund | 310,072 | 2,142,650 |
| Construction Fund | <u>-</u> | <u>1,516,688</u> |
| | <u>\$ 97,460,539</u> | <u>\$ 99,195,195</u> |

The Authority's restricted investments and cash at September 30, 1999 and 1998, 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, 1999 and 1998 are as follows:

| | <u>1999</u> | <u>1998</u> |
|---|----------------------|----------------------|
| Money market/trust funds | \$ 34,318,688 | \$ 40,785,417 |
| U.S. Treasury notes (federal bonds) | - | 20,566,716 |
| Investment agreements | 18,999,985 | 18,999,985 |
| Short-term investments (commercial paper) | <u>44,141,866</u> | <u>18,843,077</u> |
| | <u>\$ 97,460,539</u> | <u>\$ 99,195,195</u> |

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 1999 and 1998

(5) Investments and Cash with Trustees, Continued

The market value of restricted investments and cash at September 30, 1999 and 1998 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, 1999, 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, 1999, \$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, were 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, 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, 1997, it has been determined that for the year ended September 30, 1999, a minimum combined employer and employee contribution rate of 28.01% 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, 1999. The effect of the Authority's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 18.51% to an effective rate of 17.02% for the year ended September 30, 1999. In recognition of the above, an accrual reduction of 1.58% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 17.02% and the employer's statutory rate of 18.6%. The effective employer accrual rate for the year ended September 30, 1998 was 17.03%.

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Notes to Financial Statements
September 30, 1999 and 1998

(6) Employees' Retirement Plan, Continued

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, 1997, 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, 1999 and 1998 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, 1999 and 1998 is as follows:

| | <u>1999</u> | <u>1998</u> |
|---|---------------------|---------------------|
| Cash contributions | \$ 1,565,600 | \$ 1,688,677 |
| Reduction of accrued unfunded liability | <u>(127,901)</u> | <u>(127,900)</u> |
| | <u>\$ 1,437,699</u> | <u>\$ 1,560,777</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 |

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 1999 and 1998

(7) Leases, Continued

Duty Free Shoppers, Ltd., Continued

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, 1999, are as follows:

| <u>Year Ending</u> <u>September 30,</u> | <u>Receipts</u> | <u>Revenue</u> |
|--|----------------------|----------------------|
| 2000 | \$ 9,560,000 | \$ 9,897,861 |
| 2001 | 10,000,035 | 9,396,682 |
| 2002 | <u>5,500,035</u> | <u>8,818,027</u> |
| | \$ <u>25,060,070</u> | \$ <u>28,112,570</u> |

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, 1999, 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, 1999, are as follows:

| <u>Year Ending</u> <u>September 30,</u> | |
|--|----------------------|
| 2000 | \$ 5,511,738 |
| 2001 | 5,358,780 |
| 2002 | 5,166,352 |
| 2003 | <u>3,676,347</u> |
| Total minimum lease payments receivable | \$ <u>19,713,217</u> |

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 1999 and 1998

(8) Deferred Income

Deferred income at September 30, 1999 and 1998, consists primarily of two balances. One is the remaining portion of the Duty Free Shoppers "minimum guarantee" (see note 7) rental payment of \$5,060,000 received on July 20, 1999 and \$4,140,000 received on July 20, 1998, 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 \$1,073,297 and \$1,300,000 at September 30, 1999 and 1998, 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.

(10) Commitments and Contingencies

Commitments

The Authority has commitments of \$3,575,722 under several contracts associated with the expansion of the air terminal at September 30, 1999.

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, 1999 is \$8,589,998.

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, 1999.

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.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 1999 and 1998

(10) Commitments and Contingencies, Continued

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.

Aircraft Crash

In August 1997, a airliner crashed on approach to GIAT, 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. 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 23% and 20% of total operating revenues during the years ended September 30, 1999 and 1998, respectively. Approximately 36% and 34% of the Authority's total revenues for the years ended September 30, 1999 and 1998, respectively, were derived from one airline customer.

(12) Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 1999 and 1998, the Authority has assessed and collected from air carriers, fees 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, 1999 and 1998, the Authority has payables to the Treasurer of Guam of \$1,175,935 and \$1,933,609, 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'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 |
| Estimated recoveries | (723,634) |
| Typhoon loss | \$ <u>164,047</u> |

In 1999, these estimates were revised 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><u>(62,482)</u></u> |

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to Financial Statements
September 30, 1999 and 1998

(13) Typhoon Damage, Continued

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

(14) Year 2000 Disclosure

On March 29, 1999, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin (TB) 99-1, "Disclosures about Year 2000 Issues-An Amendment of Technical Bulletin 98-1." The amendment, among other things, provides that required year 2000 disclosures may be reported as required supplementary information. Retroactive application of TB 99-1 is permitted. The Authority has elected to apply TB 99-1 retroactively for its 1998 financial statements, and to present the year 2000 disclosures as required supplementary information.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Supplementary Year 2000 Issue Information
September 30, 1999

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Authority's operations. The Authority has identified computer systems and other electronic equipment, which may be affected by the year 2000 issue.

Because of the unprecedented nature of the year 2000 issue, its effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Authority is or will be year 2000 ready, that the Authority's remediation efforts will be successful in whole or in part, or that parties with whom the Authority does business will be year 2000 ready.

See Accompanying Independent Auditors' Report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 1

Facilities and Systems Usage Charges Years Ended September 30, 1999 and 1998

| | <u>1999</u> | <u>1998</u> |
|--|----------------------|----------------------|
| Departure facilities | \$ 5,983,564 | \$ 4,499,960 |
| Arrival facilities | 5,795,968 | 7,315,929 |
| Public apron | 2,320,142 | 1,453,408 |
| Immigration | 1,969,613 | 2,766,793 |
| Passenger loading bridge usage charge | 1,487,618 | 2,279,430 |
| Landing fees | 382,356 | 3,369,571 |
| Fuel flowage fee | 249,610 | 311,749 |
| Utility recovery charge and other fees | <u>102,780</u> | <u>249,131</u> |
| | <u>\$ 18,291,651</u> | <u>\$ 22,245,971</u> |

Schedule 2

Concession Fees Years Ended September 30, 1999 and 1998

| | <u>1999</u> | <u>1998</u> |
|-----------------------|----------------------|----------------------|
| General merchandise | \$ 9,556,945 | \$ 9,488,775 |
| Ground transportation | 2,591,518 | 2,910,815 |
| Car rental | 902,154 | 878,662 |
| In-flight catering | 815,298 | 893,318 |
| Food and beverage | 502,004 | 504,993 |
| Parking lot | 387,801 | 386,469 |
| Advertising | 321,078 | 496,740 |
| Other | <u>311,041</u> | <u>263,100</u> |
| | <u>\$ 15,387,839</u> | <u>\$ 15,822,872</u> |

Schedule 3

Rental Income Years Ended September 30, 1999 and 1998

| | <u>1999</u> | <u>1998</u> |
|--------------------------|---------------------|---------------------|
| Operating space | | |
| - Airline | \$ 3,461,355 | \$ 4,232,526 |
| - Non-airline | 1,731,809 | 2,056,267 |
| Maintenance shop rentals | 1,002,639 | 1,010,659 |
| Cargo rentals | 485,684 | 455,091 |
| Other | <u>314,666</u> | <u>332,154</u> |
| | <u>\$ 6,996,153</u> | <u>\$ 8,086,697</u> |

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 4

Contractual Services Years Ended September 30, 1999 and 1998

| | <u>1999</u> | <u>1998</u> |
|----------------------------|----------------------|----------------------|
| Repairs and maintenance | \$ 4,450,416 | \$ 4,043,463 |
| Utilities and telephone | 3,834,221 | 3,544,789 |
| Professional services | 1,759,550 | 3,547,889 |
| Insurance | 474,399 | 772,959 |
| Advertising and promotions | 287,308 | 212,112 |
| Travel | 97,382 | 162,417 |
| Miscellaneous | <u>425,040</u> | <u>562,661</u> |
| | \$ <u>11,328,316</u> | \$ <u>12,846,290</u> |

Schedule 5

Personnel Services Years Ended September 30, 1999 and 1998

| | <u>1999</u> | <u>1998</u> |
|--------------------------|----------------------|----------------------|
| Salaries and wages | \$ 8,529,932 | \$ 8,410,657 |
| Retirement contributions | 1,565,600 | 1,536,241 |
| Insurance | <u>521,753</u> | <u>354,641</u> |
| | \$ <u>10,617,285</u> | \$ <u>10,301,539</u> |

Schedule 6

Materials And Supplies Years Ended September 30, 1999 and 1998

| | <u>1999</u> | <u>1998</u> |
|-----------------------------------|---------------------|---------------------|
| Vehicle maintenance and supplies | \$ 556,101 | \$ 640,062 |
| Office supplies | 162,154 | 242,981 |
| Building maintenance and supplies | 129,309 | 174,223 |
| Electrical and plumbing | 134,821 | 113,596 |
| Miscellaneous | <u>112,951</u> | <u>178,016</u> |
| | \$ <u>1,095,336</u> | \$ <u>1,348,878</u> |

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 7

Insurance Coverage
Year Ended September 30, 1999

| <u>Name of Insurer</u> | <u>Policy</u> | <u>Date</u> | <u>Amount of Risk Coverage</u> |
|--|--|--------------------|--------------------------------|
| Lloyds of London | Airport Operators Liability | September 30, 1999 | \$ 500,000,000 |
| Lloyds of London | Property Insurance | September 30, 1999 | \$ 200,000,000 |
| Chubb Insurance Co. | Directors & Officers Liability | September 30, 1999 | \$ 2,000,000 |
| National Union Fire Insurance Company | Automobile | September 30, 1999 | \$ 1,000,000 |
| National Union Fire Insurance Company | Workers' Compensation | September 30, 1999 | \$ 1,000,000 |
| American Home Assurance Co. | Honesty and Faithful Performance Bond | September 30, 1999 | \$ 710,000 |

See accompanying independent auditors' report.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule 8

Reconciliation of Historical Financial Results
Years Ended September 30, 1999 and 1998

| | <u>1999</u> | <u>1998</u> |
|--|-----------------------|----------------------|
| Net (loss) earnings (per financial statements): | | |
| Operating revenues | \$ 50,104,630 | \$ 57,576,245 |
| Operating expenses | <u>23,318,448</u> | <u>24,871,496</u> |
| Operating income before depreciation | 26,786,182 | 32,704,749 |
| Depreciation | <u>15,952,051</u> | <u>12,513,172</u> |
| | 10,834,131 | 20,191,577 |
| Interest and other expense | <u>18,062,730</u> | <u>11,830,760</u> |
| Net (loss) earnings | \$ <u>(7,228,599)</u> | \$ <u>8,360,817</u> |
| Net Revenues (per Bond Resolution): | | |
| Revenues | \$ 48,602,120 | \$ 55,086,535 |
| Operation and maintenance expenses | <u>23,318,448</u> | <u>24,871,496</u> |
| Net revenues | 25,283,672 | 30,215,039 |
| Asset purchases | 139,079 | 431,540 |
| Required fund deposits | <u>10,676,823</u> | <u>10,026,742</u> |
| Net revenues available for debt service | \$ <u>14,467,770</u> | \$ <u>19,756,757</u> |
| Reconciliation: | | |
| Net (loss) earnings | \$ (7,228,599) | \$ 8,360,817 |
| Add back: | | |
| Depreciation | 15,952,051 | 12,513,172 |
| Interest and other expense | 18,062,730 | 11,830,760 |
| Deduct: | | |
| Interest income on funds related to construction | (1,502,510) | (2,489,710) |
| Asset purchases | (139,079) | (431,540) |
| Required deposits | <u>(10,676,823)</u> | <u>(10,026,742)</u> |
| | \$ <u>14,467,770</u> | \$ <u>19,756,757</u> |

See accompanying independent auditors' report.