Financial Statements and Supplementary Information

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2014 and 2013 with Report of Independent Auditors

Building a better working world

Antonio B. Won Pat International Airport Authority, Guam

Financial Statements and
Supplementary Information

Years ended September 30, 2014 and 2013

Contents

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of September 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other Than Pension that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included in pages 51 through 54 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information included in pages 51 through 54 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule 9 - Employee Data on page 55 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 29, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

January 29, 2015

The following Management's Discussion and Analysis of the Antonio B. Won Pat International Airport Authority, Guam's (the "Authority") activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ("FY") ended September 30, 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Authority was created by Public Law 13-57 (as amended) as a component unit of the Government of Guam to own and operate the facilities of the Guam International Airport Terminal (the "Airport").

The Authority is a self-sustaining autonomous government agency, and operates and maintains the Airport. The Airport provides facilities for domestic overseas flights, and international flights to destinations in Micronesia, Asia and Australia. It is authorized to impose and collect rates and charges for the Airport's services and properties to generate revenues to fund operating expenses, debt service and reserves. The 1993 Airport Bonds, refinanced in 2003, issued by the Authority, federal grants and airport revenues funded the construction of the Airport Terminal Building and the Capital Improvement Program. The Authority issued the 2013 Airport Bonds during the 4th quarter of FY'13 that refunded the 2003 bonds and provided funds for planned capital improvement projects.

A. Mission Statement

The Authority strives to ensure the safety and security of the traveling public, is dedicated to maintaining a superior and reliable level of airport services for our island residents and tourists, and is committed to supporting the development of air linkages and facilities which are integral parts of the island's future economic growth. The Authority's vision is to advance Guam further as the first class premier air transportation hub of the region.

B. Using the Financial Statements

The Authority utilizes the flow of economic measurement focus. Financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority has implemented GASB 20 and elected not to apply Financial Accounting Standards Board ("FASB") Statements and Interpretations issued after November 30, 1989.

The Statement of Revenues, Expenses and Changes in Net Position replaced the Statement of Revenues, Expenses and Changes in Retained Earnings. Revenues are now categorized as either operating or non-operating based upon definitions provided by GASB 34. Significant recurring sources of the Authority's revenues, including federal grants are reported as non-operating revenues.

C. Authority Activities and Highlights

Passenger activity in FY'14 was relatively flat as compared to the previous year and the Authority views this as a sustained trend that will eventually exceed the 1.7 million enplanement threshold. FY'14 signatory enplanements of 1,673,521 and total enplanements of 1,690,900 decreased from the prior year by 1.2% and 0.4%, respectively. Non –signatory airline operations consisting of charter flights from China and Russia increased by 331.9% from 4,024 to 17,379 enplanements in the reporting period.

Japan's still-faltering economy hit hard by a consumption tax hike, a continuing recession and weak currency played a major role in the downtick of passenger enplanements. Japan visitors decreased 9.5% in FY'14. This is significant since Japan represents 62% of Guam's visitor market share. Fortunately, this was offset by increased visitors from South Korea (26%) and Taiwan (6.3%) as well as the aforementioned charters from China and Russia. Although, the Authority welcomes visitors from Russia, it is humorous to note that a Russian visitor will occupy a room from the island's limited hotel room inventory for an average stay of 2 to 3 weeks as compared to a 3-day stay from other visitors – great for everyone except perhaps the airport which relies on passenger through-put for its revenue. The main takeaway here is that market diversification is important and is increasingly evident through a closer collaboration between the Authority and the Guam Visitors Bureau on air service development, incentives and global awareness of the Guam product.

Armed with $110M in new money from the 2013 Airport Bonds, the Authority implemented the upper-tier priority capital improvement projects. Design of the Concourse Isolation project which ties in the new arrivals corridor and related seismic upgrades has reached the 30% design level with bid issuance scheduled for the 3rd quarter of FY'15. The Hold Bag Screening Relocation Project has begun with the manufacturing of key components of the baggage handling system. The Parking Expansion project design has commenced with a call for bids slated for the 4th quarter of FY'15. Key improvements to the Fueling System have been completed adding 10,000 barrels of fuel storage capacity or 3-days of added airline supply. Enhancements have been completed for the FIDS and Financial Management System. The ground power and preconditioned air point-of-use units for the passenger loading bridges (PLB) have been upgraded and operational saving the Authority over $300,000 in annual rental costs for ground service equipment.

With regards to federally funded projects, the Authority completed hazard mitigation projects relative to the hardening of the apron ramp lights and the underground power connections in the south Tiyan area. Although not operational pending completion of the Runway 6L/24R rehabilitation project and subsequent FAA flight checks, the new Instrument Landing System (ILS) for 6L has been installed. An additional 32 residential homes have been insulated under the Authority's Sound Solutions program – awaiting execution of avigation easements. The former GPD barracks and concrete pads were demolished and remediated to pave the way for new road construction.

C. Authority Activities and Highlights, continued

Speaking about road construction, after years of dispute and controversy, the land issues for the Tiyan Parkway have been resolved to the satisfaction of the Authority, the Government of Guam (GovGuam) and the federal oversight agencies. Reasonable actions and assurances were agreed to that provides confidence that the full build of the Tiyan Parkway will occur. GovGuam appropriated funds and has finalized purchases of two private lots. After federal and environmental clearances, the Authority sold a perpetual easement of the airport land needed for Phase 1 of the Tiyan Parkway. Subsequently, the Authority will purchase remnant properties from GovGuam that were acquired for Phase 2 of the roadway. Construction of Phase 1 is work in progress and is scheduled for completion in the 3rd quarter of FY'15. Once opened, Central Avenue will be closed and clearing of the Runway Safety Area will begin.

The Authority's new specialty retail concessionaire has completed over $18M in renovation works and improvements creating a new retail environment with exciting shops and boutiques and a more diversified product line. The improvements include the Authority owned food court areas and furniture and the concourse level restrooms. The concessionaire work is continuing to renovate boutique space recently turned over by the previous operator.

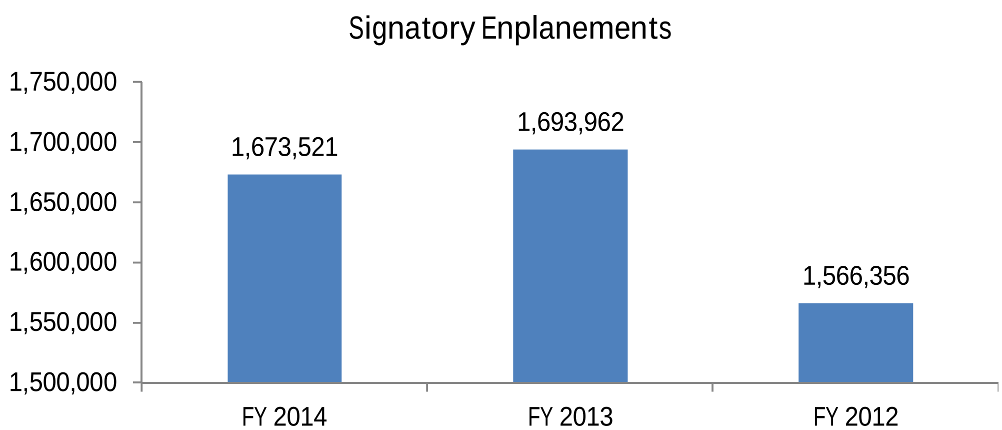
The energy management program was completed with the installation of a new building automation system, energy efficient lighting and the installation of new chillers, cooling towers and air handling units which largely comprised the air conditioning system for the terminal. The latter mitigated the recurring condition of high temperatures in the building that impacted the passengers, employees and retail products. The energy management loan was refinanced for a 10 year term to coincide with the Energy Services Company (ESCO) performance contract term.

The Authority continued to position itself as the 8th ranked airport for international arrivals for all U.S. ports of entry ahead of large airports such as Orlando and Washington, D.C. Over 90% of the Authority's enplanements are international from Origin and Destination markets.

C. Authority Activities and Highlights, continued

Activities for the Authority for the years ended September 30, 2014, 2013, and 2012 are as follows:

	2014	2013	2012	2014 % Increase (Decrease) from 2013
Major revenue sources:				
Landing fees	$ 2,763,527	$ 2,963,427	$ 3,042,109	-6.7%
Terminal	10,760,224	11,252,173	10,861,087	-4.4%
Concessions and parking	23,328,427	18,022,564	15,899,179	29.4%
Total	$36,852,178	$32,238,164	$29,802,375	14.3%
Passenger (enplanements) activity:				
Signatory airlines	1,673,521	1,693,962	1,566,356	-1.2%
Other airlines	17,379	4,024	8,135	331.9%
Total enplanements	1,690,900	1,697,986	1,574,491	-0.4%
Aircraft operations	53,228	52,725	48,750	1.0%
Aircraft landed weights (000)	3,605,575	3,296,664	2,787,086	9.4%
O & D passengers	2,970,320	2,984,067	2,819,665	-0.5%
Transfer passengers	210,551	199,567	167,328	5.5%
Total passengers	3,180,871	3,183,634	2,986,993	-0.1%



C. Authority Activities and Highlights, continued

For FY 2014, the signatory airlines cost per enplaned passenger (CPE) of $16.11 is a decrease of 6.6% from the $17.24 CPE in FY 2013. The decrease is largely attributable to the lower rates and charges implemented for our signatory air carriers as result of the increase non-aeronautical revenue, primarily from the specialty retail concession.

The Authority maintained a competitive cost structure and managed to achieve a debt service coverage of 1.52 versus the 1.25 debt service requirements of the former 2003 and new 2013 bond covenants. Moreover, the Authority continued to maintain a superior and reliable level of airport services in the facilitation of passengers and cargo to their destinations safely, efficiently, and effectively, key success factors paramount to the Authority's financial success, while promoting commerce and connectivity to our neighboring islands and countries in the region.

The following airlines served the Authority with scheduled passenger service for FY 2013: United Airlines, Delta Airlines, China Airlines, Japan Airlines, Korean Airlines, Philippine Airlines, Jin Air, Eva Air, Jeju Airlines and Aerospace Concepts with the latter operating a business jet service. Cargo operators include Asia Pacific Airlines, Federal Express and UPS.

The principal commuter airline providing inter-island passenger flight service to and from Guam and the Commonwealth of the Northern Mariana Islands (CMNI) is Cape Air. Freedom Air is in bankruptcy and has suspended operations. There is a growing demand from airline operators such as Star Marianas Air and Arctic Air utilizing aircraft weighing 12,500 pounds or lower on a scheduled or charter basis for passenger/cargo services.

D. Financial Operation Highlights

For FY'14, total revenues amounted to $85.5 million, a decrease of -1.5% year-over-year versus FY'13 amount of $86.7 million. Operating income which amounted to $62.0 million accounted for 72.5% of all revenue in 2014. The remaining 27.5% or $23.4 million of revenue was comprised of non-operating income that included interest income, passenger facility charges, and grants from the U.S. government and transfers from the government of Guam.

The Authority continues to focus efforts to expand and diversify the non-airline revenue stream.

Operational Revenues

The $62.0 million in operational revenues earned in FY'14 represented a 3.7% increase versus the $59.8 million recorded in FY'13. This increase in operating revenue may be attributed to the increase in non-aeronautical revenue streams which accounted for 57% of the Authority's operating revenue in 2014. Concession fees increased to $23.3 million or 29.4% year-on-year, versus the $18.0 million in 2013. General merchandise revenue rose 62.2% but resulted in a decreased average spend per enplaned passenger of approximately $15.27 in 2014 versus $17.94 in 2013. Ground transportation decreased 9.1% from $5.2 million to $4.7 million. Rental income decreased by 4.4% for the same period with non-airline rentals reflecting a decrease of 2.4%, down $3.9 million from $4.0 million.

D. Financial Operation Highlights, continued

Non-Operating Revenues

Non-operating revenues decreased in 2014 by 13.0% versus 2013, $23.4 million versus $27.0 million respectively. The decrease in 2014 is primarily attributed to the decrease in grants from the U.S. government which amounted to $12.6 million and decrease in interest income to $0.637 million.

Operational Expenses

For FY'14, operational expenses which equaled $38.6 million, reflects a 0.4% year-over-year increase from FY 2013's amount of $38.4 million. Despite a rise in FTE employees of 10.5% from 190 to 210, personnel services expenditures decreased by 2.5% due to a 12.3% decrease in retirement contributions from $3.7 million to $3.2 million in FY 2013 to FY 2014, respectively.

Airline Signatory Rates and Charges

The Authority entered into an airport operating and lease agreement with signatory airlines to provide those airlines with the nonexclusive right to use the airport facilities, equipment improvements, and services, in addition to occupying certain exclusive use premises and facilities. In exchange for more favorable rates, the signatory airlines are guarantors of the Authority's financial position. These leases became effective October 1, 2006 and with an extension of five years will remain in effect through September 30, 2016. Re-negotiations with the signatory airlines for a new agreement will commence during FY'15.

D. Financial Operation Highlights, continued

Financial Position Summary

A condensed summary of the Authority's statements of net position at September 30, 2014, 2013 and 2012 is shown below:

ASSETS	2014	2013	2012	2014 % Increase (Decrease) from 2013
Current assets:				
Unrestricted current assets	$ 12,381,284	$ 15,701,558	$ 12,549,055	-21.1%
Restricted current assets	2,517,313	1,449,350	1,661,610	73.7%
Non-current assets:				
Unrestricted assets	33,124,474	28,466,289	20,261,161	16.4%
Restricted assets	140,096,676	130,549,525	32,941,612	7.3%
Capital assets	410,140,238	404,849,728	398,963,653	1.3%
Avigation easements	9,956,947	10,966,295	11,975,643	-9.2%
Accounts receivable trade	1,155,600	1,047,600	799,200	10.3%
Total assets	609,372,532	593,030,345	479,151,934	2.8%
Deferred outflow of resources	---	---	2,860,031	n/a
LIABILITIES				
Current liabilities:				
Payable from unrestricted assets	10,180,532	14,537,538	10,215,231	-30.0%
Payable from restricted assets	19,353,140	1,867,990	15,472,745	936.0%
Long term liabilities	251,650,707	259,837,084	155,190,940	-3.2%
Total liabilities	281,184,379	276,242,612	180,878,916	1.8%
Deferred inflow of resources	486,540	585,743	---	-16.9%
NET POSITION				
Invested in capital assets – net of related debt	158,283,481	154,075,891	249,647,943	2.7%
Restricted	133,105,109	130,130,885	28,720,477	2.3%
Unrestricted	36,313,023	31,995,214	22,764,629	13.5%
Total net position	$327,701,613	$316,201,990	$301,133,049	3.6%

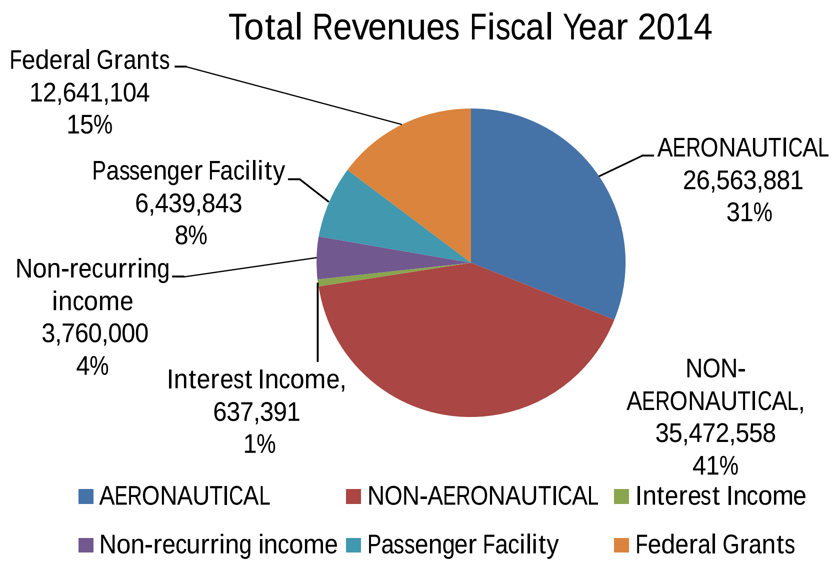
D. Financial Operation Highlights, continued

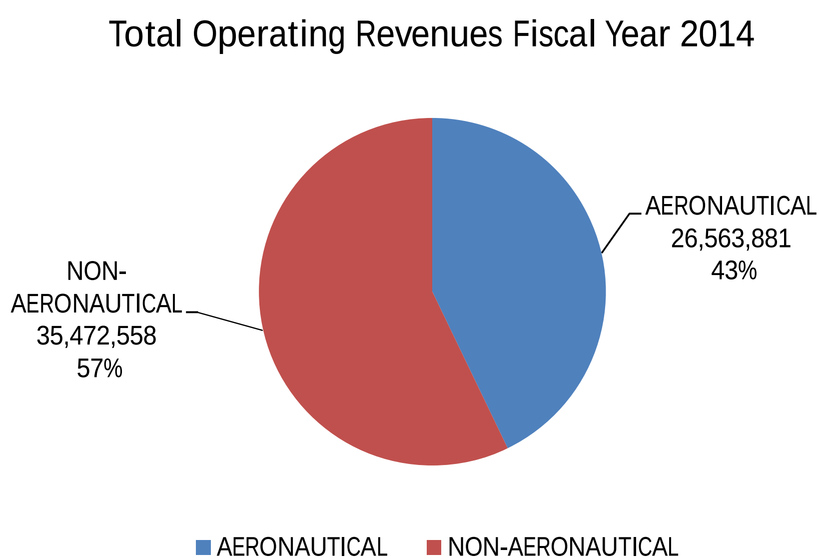
Revenues

A summary of revenues for the years ended September 30, 2014, 2013 and 2012 and the amount and percentage of change in relation to prior year is as follows:

	2014	2014 % of Total	2013	2013 % of Total	2012	2012 % of Total	2014 % Increase (Decrease) from 2013
Operating:							
Facilities and systems usage charges:							
Arrival facilities	$ 6,148,322	7.2%	$ 7,336,052	8.5%	$ 6,398,217	9.6%	-16.2%
Departure facilities	5,887,352	6.9%	6,942,472	8.0%	6,348,530	9.5%	-15.2%
Passenger loading bridge	5,799,828	6.8%	4,666,053	5.4%	3,676,307	5.5%	24.3%
Landing fees	2,763,526	3.2%	2,963,427	3.4%	3,042,109	4.6%	-6.7%
Immigration	2,292,927	2.7%	2,737,477	3.2%	2,337,874	3.5%	-16.2%
Public apron	1,725,965	2.0%	1,691,203	1.9%	2,107,797	3.2%	2.1%
Utility recovery charge and other fees	550,085	0.6%	546,453	0.6%	474,691	0.7%	0.7%
Fuel flowage fee	203,172	0.2%	193,538	0.2%	183,933	0.3%	5.0%
Total facilities and systems usage charges	25,371,177	29.7%	27,076,675	31.2%	$24,569,458	36.9%	-6.3%
Concession fees:							
General merchandise	14,729,734	17.2%	9,079,528	10.5%	7,420,798	11.2%	62.2%
Ground transportation	4,695,730	5.5%	5,165,180	6.0%	4,803,013	7.2%	-9.1%
Car rental	986,970	1.2%	948,904	1.1%	934,605	1.4%	4.0%
Food and beverage	936,410	1.1%	913,962	1.1%	902,317	1.4%	2.5%
In-flight catering	862,540	1.0%	811,521	0.9%	754,661	1.1%	6.3%
Other	1,117,043	1.3%	1,103,469	1.3%	1,083,785	1.6%	1.2%
Total concession fees	23,328,427	27.3%	18,022,564	20.8%	15,899,179	23.9%	29.4%
Rental income:							
Operating space - airline	3,189,198	3.7%	3,469,810	4.0%	3,103,781	4.7%	-8.1%
Operating space - non-airline	3,902,492	4.6%	3,997,694	4.6%	3,820,488	5.7%	-2.4%
Other	3,668,534	4.3%	3,784,669	4.4%	3,936,818	5.9%	-3.1%
Total rental income	10,760,224	12.6%	11,252,173	13.0%	10,861,087	16.3%	-4.4%
Miscellaneous	2,576,611	3.0%	3,455,669	4.0%	1,148,209	1.7%	-25.4%
Total operating	62,036,439	72.5%	59,807,801	68.9%	52,477,933	78.9%	3.7%
Non-Operating:							
Interest income	637,391	0.7%	2,976,706	3.4%	1,194,681	1.8%	-78.6%
Non-recurring income	3,760,000	4.4%	---	0.0%	---	0.0%	n/a
Passenger facility charge	6,439,843	7.5%	6,559,690	7.6%	6,096,248	9.2%	-1.8%
Grants from the U. S. Government	12,635,414	14.8%	17,435,986	20.1%	6,751,432	10.1%	-27.5%
Transfer from Government of Guam - OHS	5,690	0.0%	14,701	0.0%	26,388	0.0%	-61.3%
Total non-operating	23,478,338	27.5%	26,987,083	31.1%	14,068,749	21.1%	-13.0%
Total revenues	$85,514,777	100.0%	$86,794,164	100.0%	$66,546,682	100.0%	-1.5%

D. Financial Operation Highlights, continued





D. Financial Operation Highlights, continued

Revenues, continued

Receipts from grants from the United States Government amounted to $12.6 million for FY'14. The majority of monies will be used for airfield and aviation infrastructure improvements, environmental assessments and base conversion projects.

Expenses

A summary of expenses for the years ended September 30, 2014, 2013, and 2012 and the amount and percentage of change in relation to prior year amounts is as follows:

	2014	2014 % of Total	2013	2013 % of Total	2012	2012 % of Total	2014 % Increase (Decrease) from 2013
Operating:							
Contractual services	$20,280,467	27.4%	$19,387,119	27.1%	$ 18,950,053	28.3%	4.6%
Personnel services	17,023,705	23.0%	17,463,657	24.3%	13,917,232	20.8%	-2.5%
Materials and supplies	1,132,555	1.5%	1,078,754	1.5%	1,178,487	1.8%	5.0%
Bad debt expense	161,974	0.2%	497,176	0.7%	1,105,457	1.7%	-67.4%
Total operating expenses	38,598,701	52.1%	38,426,706	53.6%	35,151,229	52.5%	0.4%
Depreciation and amortization	21,915,920	29.6%	22,668,001	31.6%	24,193,004	36.1%	-3.3%
Non-Operating:							
Interest expense	13,248,425	17.9%	6,093,981	8.5%	7,164,599	10.7%	117.4%
Bond Issuance Cost	54,645	0.1%	3,912,357	5.5%	---	0.0%	-98.6%
Other expenses	197,463	0.3%	624,178	0.9%	433,014	0.6%	-68.4%
Total non-operating expenses	13,500,533	18.2%	10,630,516	14.8%	7,597,613	11.3%	27.0%
Total expenses	$74,015,154	100%	$71,725,223	100%	$66,941,846	100%	3.2%
Total full time employees	210		190		192		10.5%

E. Cost Per Enplaned Passenger and Debt Service Coverage

Cost Per Enplaned Passenger

A summary of the cost per enplaned passenger for the years ended September 30, 2014, 2013 and 2012, and the amount and percentage of change in relation to prior year amounts is as follows:

	2014 Actual	2014 % of Totals	2013 Actual	2013 % of Totals	2012 Actual	2012 % of Totals
Airport Revenues						
Signatory Airline rentals and fees	$26,955,108	38.5%	$29,197,845	41.6 %	$26,332,581	43.9%
Revenues from sources other than Signatory Airline rentals and fees	35,705,042	51.0%	33,483,811	47.7 %	27,208,919	45.3%
Passenger Facility Charge revenue	6,439,843	9.2%	6,559,691	9.3%	6,096,248	10.2%
Operating grants from U.S. Government	879,966	1.3%	946,273	1.3 %	408,686	0.6%
Airport Revenues	$69,979,959	100%	$70,187,620	100%	$ 60,046,434	100%

	2014	2014 % Increase (decrease) From 2013	2013	2013 % Increase (decrease) From 2012	2012
Signatory Airline enplaned passengers	1,673,521	-1.2%	1,693,962	8.1%	1,566,356
Signatory Airline cost per enplaned passenger	$16.11	-6.6%	$17.24	2.5%	$16.81

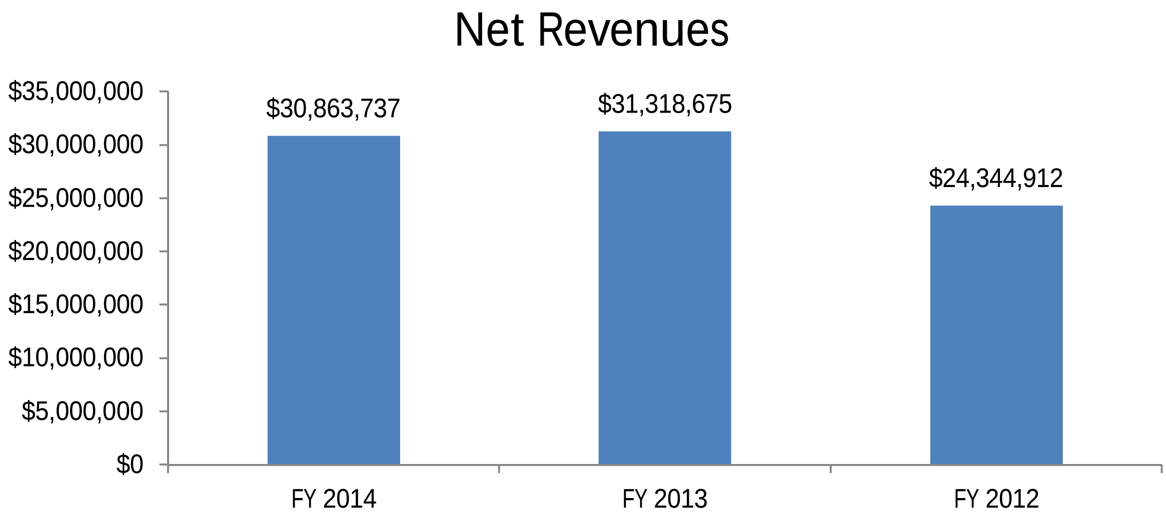
Debt Service Coverage

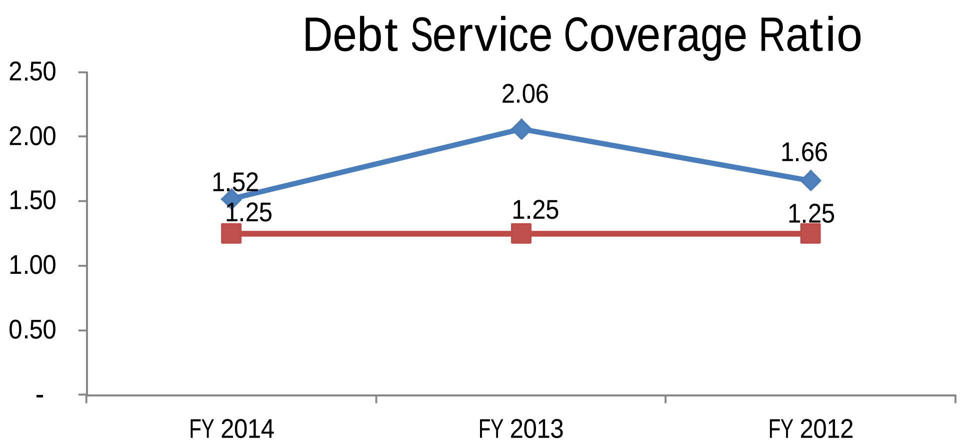
Under the Bond Indenture for the issuance of the 2013 General Revenue Bonds, the Authority is required to maintain minimum debt service coverage of 1.25 in relation to net revenues versus annual debt service. A summary of the annual debt coverage for the years ended September 30, 2014, 2013 and 2012 is as follows:

	2014	2013	2012	2014 % Increase (Decrease) from 2013
Airport Revenues	$69,979,959	$70,187,620	$60,046,434	-0.3%
Less: Operation and Maintenance Expenses	(39,116,222)	(38,868,945)	(35,701,522)	0.7%
Net Revenues	30,863,737	31,318,675	24,344,912	-1.5%
Plus: Other Available Moneys	6,066,606	4,328,486	4,317,380	40.2%
Net Revenues and Other Available Moneys	$36,930,343	$35,647,161	$28,662,292	3.5%
Rate Covenant				
Net Revenues and Other Available Moneys	$ 36,930,343	$ 35,647,161	$ 28,662,292	3.6%
Total Annual Debt Service	$ 24,266,424	$ 17,313,944	$ 17,269,519	40.2%
Annual Debt Service Coverage	1.52	2.06	1.66	-26.1%
Debt service coverage requirement	1.25	1.25	1.25	

E. Cost Per Enplaned Passenger and Debt Service Coverage, continued

Debt Service Coverage, continued





F. Outlook for FY 2015

The global airline industry will continue to record substantial profits going forward into 2015. Utilization of fuel efficient aircraft, downsized seat capacity and ancillary fees all were factors for the airlines resurgence. Oil prices are on a downward slide and with a volatile history, prices could spike up just as quick. But if the lower prices are sustained, the Authority should achieve modest savings from power and other fuel based operations. The airlines, on the other hand, will enjoy a substantial windfall since a third of their total operating cost is fuel. The airlines could reduce air fares but are more likely to maximize returns to their investors to offset major losses a decade ago when oil prices skyrocketed to over $100 a barrel. The Authority will approach the airlines to experiment with new but high risk markets. If there is a pent up demand, all will benefit. If there is a short-term loss, it can be absorbed.

The Authority's passenger projections of 1,788,116 enplanements reflect a more aggressive outlook year-over-year with a 7.0% growth in FY'15. Japan's share of Guam's visitor market is expected to diminish further due to a consumption tax that has reduced disposable income and, equally important is the continued devaluation of the Japanese yen. The same scenario applies to Russia in which international sanctions and declining oil prices have weakened their currency, thus, the Authority has a negative outlook on direct charters from eastern Russia being resumed in the near term.

On the other hand, South Korea is expected to have the most positive and immediate impact in FY'15. The number of airlines is expected to increase from 3 to 5 and potentially 6 during the course of the year. In the 1st quarter alone, a US carrier will reinstate daily service to Seoul, a low cost airline will up-gauge their aircraft from a narrow to a wide body, new and expanded air service from Pusan, the 2nd largest city in South Korea, and numerous charters and extra sections from all operators. A new carrier is expected to inaugurate service from the Philippines in the 2nd quarter. In 2014, we received more frequent charters from China and that is expected to continue for 2015; a US airline will commence scheduled service from Shanghai in the 1st quarter of 2015; and; the Authority is engaged in discussions with 3 Chinese airlines. The US government's policy decision to extend the validity period of a US visa from 1 to 10 years should have a positive influence to facilitate demand from the China market.

Air service development continues to move up the priority ladder. Diversification is a key objective and the largest and essentially untapped visitor base is the Chinese market. Regional resort destinations including our neighbors to the north are capitalizing on the increasing Chinese outbound market due to visa waiver authority or more liberal entry requirements. As a result, the Authority intends to take a more active and aggressive role in the years long quest for China visa waiver parole authority.

The hotel room inventory has always been a concern to the Authority. A shuttered hotel property re-opened during FY'14. A new luxury hotel will open in FY'15. A large hotel group is expanding and there are government initiatives to incentivize hotel development with a goal of 1600 rooms.

F. Outlook for FY 2015, continued

The Authority will continue to consult and plan more effectively with its airline partners to reduce operational cost through the efficiencies gained from capital improvement projects and concurrently, improve the passenger experience. Equally important is to sustain the budgeted $15.80 as the cost per enplaned passenger (CPE) for FY'15 as compared to the FY'14 CPE of $16.11 representing a 2% decrease. The Authority's objective is a sustained downward trend in the CPE and the lower cost structure will lead to the expansion of existing air service and attract new air service.

FY'15 will mark the beginning of increased construction activity in the terminal building area through the start of the Concourse Isolation project that will separate passenger arrivals and eliminate the gray partitions running through the concourse. Seismic upgrades will form a part of the project scope. The Hold Bag Screening Relocation project will eventually remove the TSA screening pods in front of the ticket counters and regain the ticket counters lost. Converting the counters to common use technology will add operational capacity through effective utilization. To improve passenger facilitation further, the Authority will introduce automated passport controls kiosks for the CBP function and expand the passenger screening checkpoint for the TSA. The commercial vehicle parking area will be improved and capacity enhanced with the construction of a parking deck that will also provide arriving passengers protection from the weather.

Other terminal projects including a new coat of paint, renovation of all remaining restrooms, roofing system replacement and additional terminal seating will start during FY'15. If construction bids are favorable, other projects, although lower in priority, will move up to the design phase.

After over a decade of construction in the airfield, all the improvements that include a new taxiway, extensions to both runways and new navigational systems will finally come to an end during FY'15. Rehabilitation work on the long runway (6L/24R) and its associated instrument landing system will be flight checked and made operational along with a precision approach path indicator system for runway 24L. One major milestone will be achieved – a runway with the capacity and capability to service long- haul, Trans-pacific flights.

With regard to the Tiyan Parkway, Phase 1, on airport land that was purchased as a perpetual easement, is scheduled for completion in the 3rd quarter of FY'15. GovGuam acquisition of private properties along the cliff line has commenced for 2 parcels which will form the right-of-way for Phase 2. The Authority will be completing a supplemental environmental assessment to acquire the remnant parcels from GovGuam for the land not required for the roadway.

As final notes, the Authority will be issuing request for proposals for 2 important concessions, advertising and a food & beverage master concessionaire. Key objectives are quality passenger-centric programs with maximized airport revenue streams.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Net Position

		September 30,	
		2014	2013
Assets			
Current assets:			
Unrestricted assets:			
Cash *(Note 3)*		$ 2,288,443	$ 1,611,496
Passenger facility charge cash *(Note 3)*		272,788	22,457
Accounts receivable, trade, net of allowance for doubtful accounts of $1,963,925 at September 30, 2014 ($1,801,951 at September 30, 2013) *(Note 3)*		7,014,722	8,314,134
Accounts receivable from tenant *(Notes 3 and 9)*		129,600	10,800
Passenger facility charge receivables *(Note 3)*		252,702	957,380
Receivables from the United States Government		2,175,933	4,571,986
Inventory and other		247,096	213,305
Total unrestricted current assets		12,381,284	15,701,558
Restricted assets:			
Customs fees, cash *(Note 3)*		518,437	32,101
Customs fees, receivables *(Note 12)*		1,998,876	1,417,249
Total restricted current assets		2,517,313	1,449,350
Total current assets		14,898,597	17,150,908
Accounts receivable from tenant, unrestricted *(Notes 3 and 9)*		1,155,600	1,047,600
General Revenue Bonds *(Note 7)* :			
Investments and cash with trustees, unrestricted		33,124,474	28,466,289
Investments and cash with trustees, restricted		140,096,676	130,549,525
		173,221,150	159,015,814
Capital assets, at cost less accumulated depreciation *(Notes 4 and 11)*		410,140,238	404,849,728
Avigation easements *(Note 4)*		9,956,947	10,966,295
Total assets		609,372,532	593,030,345

See accompanying notes.

Statements of Net Position, continued

	September 30, 2014	September 30, 2013
Liabilities		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable - trade	$ 2,462,354	$ 2,435,697
Accounts payable - construction	3,048,553	5,454,840
Other liabilities *(Note 11)*	2,109,553	3,013,828
Security deposits	1,232,560	1,015,279
Current portion of annual leave *(Note 10)*	385,512	354,394
Current portion of loan payable to bank *(Notes 6 and 10)*	942,000	2,263,500
Total payable from unrestricted assets	10,180,532	14,537,538
Payable from restricted assets:		
Customs fees payable to Treasurer of Guam *(Note 12)*	2,658,915	1,867,990
General Revenue Bonds:		
Current installments *(Notes 5 and 10)*	9,845,000	---
Accrued interest	6,849,225	---
Total payable from restricted assets	19,353,140	1,867,990
Total current liabilities	29,533,672	16,405,528
Non-current liabilities:		
Payable from unrestricted assets:		
Accrued sick leave *(Notes 8 and 10)*	325,104	197,783
Long-term portion of annual leave *(Note 10)*	785,439	748,412
Long-term loan payable to bank *(Notes 6 and 10)*	10,359,193	8,664,728
Payable from restricted assets:		
Long-term bonds payable, less current installments:		
General Revenue Bonds *(Notes 5 and 10)*	240,180,971	250,226,161
Total non-current liabilities	251,650,707	259,837,084
Total liabilities	281,184,379	276,242,612
Deferred inflow of resources:		
Deferred differences on refunding of 2013 bonds *(Note 5)*	486,540	585,743
Commitments and contingencies *(Notes 5, 6, 9 and 11)*		
Net position:		
Invested in capital assets, net of related debt	158,283,481	154,075,891
Restricted *(Notes 4 and 11)*	133,105,109	130,130,885
Unrestricted	36,313,023	31,995,214
Total net position	$ 327,701,613	$ 316,201,990

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30, 2014	2013
Revenues *(Note 5)*:		
Facilities and systems usage charges	$ 25,371,177	$ 27,076,675
Concession fees *(Notes 3 and 9)*	23,328,427	18,022,564
Rental income *(Note 9)*	10,760,224	11,252,173
Miscellaneous	2,576,611	3,455,669
Total revenues	62,036,439	59,807,081
Operating costs and expenses:		
Contractual services *(Note 9)*	20,280,467	19,387,119
Personnel services	17,023,705	17,463,657
Materials and supplies	1,132,555	1,078,754
Bad debt	161,974	497,176
Total operating costs and expenses	38,598,701	38,426,706
Income from operations before depreciation and amortization	23,437,738	21,380,375
Depreciation and amortization	(21,915,920)	(22,668,001)
Income (loss) from operations	1,521,818	(1,287,626)
Non-operating income (expense):		
Passenger facility charge income	6,439,843	6,559,690
Non-recurring income *(Note 13)*	3,760,000	---
Interest income	637,391	2,976,706
Interest expense	(13,248,425)	(6,093,981)
Bond issuance cost	(54,645)	(3,912,357)
Other expenses, net	(157,244)	---
Non-recurring expenses	(40,219)	(624,178)
Total non-operating expenses, net	(2,663,299)	(1,094,120)
Loss before capital grants and transfer in	(1,141,481)	(2,381,746)
Capital grants from the United States Government	11,755,448	16,489,713
Operating grants from the United States Government	879,966	946,273
Transfer from Government of Guam - Office of Highway Safety (OHS)	5,690	14,701
Total capital and operating grants	12,641,104	17,450,687
Increase in net positon	11,499,623	15,068,941
Net position at beginning of year	316,201,990	301,133,049
Net position at end of year	$ 327,701,613	$ 316,201,990

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam

Statements of Cash Flows

	Year ended September 30, 2014	2013
Cash flows from operating activities:		
Cash received from customers	$ 62,701,531	$ 56,854,245
Cash paid to suppliers for goods and services	(16,828,239)	(22,258,973)
Cash paid to employees	(20,377,256)	(17,317,719)
Net cash provided by operating activities	25,496,036	17,277,553
Cash flows from investing activities:		
Acquisition of investments	(14,205,336)	(105,813,041)
Notes receivable	(118,800)	(10,800)
Investment interest income	637,391	2,976,706
Net cash used in investing activities	(13,686,745)	(102,847,135)
Cash flows from capital and related financing activities:		
Acquisition and construction of airport facilities	(26,833,465)	(19,362,008)
Net proceeds from 2013 General Revenue Bonds	---	247,540,014
Principal payment on 2013 General Revenue Bonds	(299,393)	---
Interest paid on 2013 General Revenue Bonds	(6,399,200)	---
Principal payment on 2003 General Revenue Bonds	---	(155,005,000)
Interest paid on 2003 General Revenue Bonds	---	(10,961,195)
Bond cost	954,703	---
Loan cost	---	172,757
Passenger facility charge receipts	7,144,521	6,497,519
U.S. Government capital grants	15,031,467	16,420,402
Transfer from Government of Guam - OHS	5,690	14,701
Net cash (used in) provided by capital and related financing activities	(10,395,677)	85,317,190
Net increase (decrease) in cash	1,413,614	(252,392)
Cash at beginning of year	1,666,054	1,918,446
Cash at end of year	$ 3,079,668	$ 1,666,054
Consisting of:		
Unrestricted	$ 2,561,231	$ 1,633,953
Restricted - current	518,437	32,101
	$ 3,079,668	$ 1,666,054

Non-cash investing and financing activities:

During the years ended September 30, 2014 and 2013, the Authority recorded an increase to capital assets and bank loan totaling $971,772 and $5,333,331, respectively, representing loan proceeds disbursed directly by the bank to a contractor.

See accompanying notes.

Statements of Cash Flows, continued

	Year ended September 30, 2014	2013
Reconciliation of loss from operations and other expenses to net cash provided by operating activities:		
Income (loss) from operations	$ 1,521,818	$(1,287,626)
Non-recurring income (expenses), net	3,562,537	(3,950,792)
	5,084,355	(5,238,418)
Adjustments to reconcile income (loss) from operations and other expenses, net to net cash provided by operating activities:		
Depreciation and amortization	21,915,920	22,668,001
Bad debt expense	161,974	497,176
(Increase) decrease in assets:		
Accounts receivable	555,811	(2,438,668)
Inventory and other	(33,791)	(162,588)
Accounts receivable from tenant	(108,000)	(248,400)
Increase (decrease) in liabilities:		
Accounts payable	(1,588,705)	210,255
Other current liabilities	(904,275)	2,110,025
Security deposits and deferred income	217,281	(265,768)
Annual leave	68,145	107,635
Accrued sick leave	127,321	38,303
Total adjustments	20,411,681	22,515,971
Net cash provided by operating activities	$ 25,496,036	$ 17,277,553

See accompanying notes.

1. Organization and Summary of Accounting Policies

Organization

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

Basis of Accounting

The Authority utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Net Position

Net position represents the residual of all other elements presented in the statement net of position. It is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Net position is presented in three components: invested in capital assets, net of related debt, restricted and unrestricted.

Net invested in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debts are also included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

1. Organization and Summary of Accounting Policies, continued

Net Position, continued

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net invested in capital assets or the restricted component of net position.

Cash

For the purpose of the statements of cash flows, cash is defined as cash on hand and in banks. Cash on hand and in banks include passenger facility charge cash and customs fees, cash.

Accounts Receivable

Accounts receivable are primarily due from airlines utilizing the Authority's airport terminal facilities and various business establishments located in Guam. The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 90 days from the date of billing. The Authority accrues finance charges on past due receivables. Receivables are stated net of estimated allowances for doubtful accounts.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Inventory

Inventory is recorded at the lower of cost (using first-in, first-out method) or market value.

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and are primarily determined based on quoted market values.

1. Organization and Summary of Accounting Policies, continued

Capital Assets and Depreciation and Amortization

Capital assets, whether purchased or constructed, are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of airport facilities and amortization of improvements has been computed by the straight-line method using estimated useful lives of 5 to 35 years for buildings and 3 to 10 years for equipment.

The Authority capitalizes buildings, land improvements and equipment that have a cost of $5,000 or more and an estimated useful life of at least three years. The costs of normal maintenance and repairs that do not add to the value of the asset or do not materially extend the lives of the assets are not capitalized.

The costs of issuing bonds to finance construction of airport facilities have been capitalized and are being amortized on a weighted-average basis over the lives of the bonds outstanding. During the fiscal year ended September 30, 2014, the Authority adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, (GASB Statement No. 65).

Capitalization of Interest

The Authority charges to construction-in-progress interest incurred during the period of construction. Interest is capitalized in accordance with Financial Accounting Standards Board Accounting Standards Codification No. 835-20 *Capitalization of Interest* for all projects which are not constructed with the proceeds of tax exempt bonds or grant funds. Interest capitalization ceases when constructed facilities are placed in service.

Avigation Easements

Avigation easements are property rights acquired by the Authority whenever land use around the Guam International Air Terminal needs to be controlled or when air rights are required. The Authority capitalizes the cost incurred for air rights and is amortized over 15 years using the straight-line method.

1. Organization and Summary of Accounting Policies, continued

Impairment of Long-lived Assets

Long-lived assets to be held and used or disposed of by the Authority are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may be recoverable.

Compensated Absences

In accordance with Public Law 27-005 and Public Law 28-068, employees vacation rates are credited at either 104, 156 or 208 hours per year, depending upon their length of service as follows:

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service.

2. Three-fourths day (6 hours) for each full bi-weekly pay period in the case of employees with more than five (5) years of service but less than fifteen (15) years of service.

3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

The statutes reduce the maximum accumulation of such vacation credits from 480 to 320 hours. Public Law 27-106 amended subsection (c) of 4 Guam Code Annotated § 4109. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over the excess shall be lost.

Accrued annual leave up to 320 hours is converted to pay upon termination of employment. Amounts to be paid during the next fiscal year are reported as current.

Bond Premium and Discount

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

1. Organization and Summary of Accounting Policies, continued

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of the Guam International Air Terminal. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, Passenger Facility Charges and certain other non-recurring income and expenses.

Revenues are recognized when earned or when services are rendered. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Passenger Facility Charges

Passenger Facility Charges (PFC) generate income to be expended by the Authority for eligible projects and the payment of debt service on the General Revenue Bonds as determined by applicable federal legislation. PFC income is recorded as non-operating income in the statements of revenues, expenses and changes in net position.

Environmental Costs

Liabilities for future remediation and monitoring costs are recorded when environmental assessments and/or remedial and monitoring efforts are probable and the costs can be reasonably estimated. These liabilities are not reduced by possible recoveries from third parties, and projected cash expenditures are not discounted.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and 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.

Risk Management

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

1. Organization and Summary of Accounting Policies, continued

Recently Adopted Accounting Pronouncements

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straightline basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans, that are administered through trusts or equivalent arrangements that meet certain criteria.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The implementation of the foregoing Statements did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27, effective for periods beginning after June 15, 2014. This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. The implementation of this Statement will have a material effect on the financial statements of the Authority and will require a restatement upon implementation. As of October 1, 2014, the net pension liability that the Authority will record upon implementation of this Statement is about $30.8 million.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. In addition, this Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment and also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

1. Organization and Summary of Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date, an amendment of GASB Statement No. 68*. The provisions of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

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

2. Subsequent Events

The Authority has evaluated subsequent events through January 29, 2015, which is also the date the financial statements were available to be issued.

3. Concentrations of Credit Risk and Major Customers

Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of cash deposits and accounts receivable.

The Authority maintains its cash in bank accounts, which at times may exceed federal depository insurance limits. At September 30, 2014 and 2013, $250,000 of the Authority’s deposits in each bank is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

A primary concessionaire accounted for 21% and 12%, respectively, of total operating revenues for each of the years ended September 30, 2014 and 2013. Receivables from the primary concessionaire totaled $306,581 and $848,086 at September 30, 2014 and 2013, respectively.

For the years ended September 30, 2014 and 2013, approximately 26% and 27%, respectively, of the Authority’s total operating revenues, including passenger facility charge income, were derived from one airline customer. At September 30, 2014 and 2013, the receivable from this airline customer totaled $1,461,141 and $2,030,362, respectively.

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

4. Airport Facilities

A summary of changes in capital assets for the year ended September 30, 2014 is as follows:

	Beginning Balance October 1, 2013	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2014
Capital assets depreciated:				
Terminal building	$342,537,339	$ 26,360	$ 5,216,447	$347,780,146
Other buildings	85,586,109	211,950	40,095,327	125,893,386
Airfield area	82,482,651	12,350,718	---	94,833,369
Apron area	40,983,694	---	(12,350,718)	28,632,976
Terminal area	24,748,708	---	---	24,748,708
Support facilities	8,866,572	75,463	531,678	9,473,713
Total capital assets depreciated	585,205,073	12,664,491	33,492,734	631,362,298
Less accumulated depreciation	(352,246,724)	(20,906,572)	---	(373,153,296)
Net capital assets depreciated	232,958,349	(8,242,081)	33,492,734	258,209,002
Capital assets not depreciated:				
Land	57,461,373	---	---	57,461,373
Construction-in-progress	114,430,006	25,883,309	(45,843,452)	94,469,863
Total capital assets not depreciated	171,891,379	25,883,309	(45,843,452)	151,931,236
	$404,849,728	$17,641,228	$(12,350,718)	$410,140,238

The Authority acquired avigation easements from surrounding residential homeowners in exchange for the cost of installing residential sound insulation. Construction-in-progress at September 30, 2014 and 2013 included $2,844,288 and $1,799,823, respectively, of costs associated with the residential sound insulation program. At September 30, 2014 and 2013, the Authority's avigation easements (net of amortization) amounted to $9,956,947 and $10,966,295, respectively, and is shown as avigation easements in the accompanying statements of net position.

4. Airport Facilities, continued

A summary of changes in capital assets for the year ended September 30, 2013 is as follows:

	Beginning Balance October 1, 2012	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2013
Capital assets depreciated:				
Terminal building	$342,344,415	$ 37,962	$154,962	$342,537,339
Other buildings	85,113,790	102,132	370,187	85,586,109
Airfield area	82,246,467	---	236,184	82,482,651
Apron area	40,983,694	---	---	40,983,694
Terminal area	24,748,708	---	---	24,748,708
Support facilities	8,712,188	21,309	133,075	8,866,572
Total capital assets depreciated	584,149,262	161,403	894,408	585,205,073
Less accumulated depreciation	(330,415,314)	(21,831,410)	---	(352,246,724)
Net capital assets depreciated	253,733,948	(21,670,007)	894,408	232,958,349
Capital assets not depreciated:				
Land	57,461,373	---	---	57,461,373
Construction-in-progress	87,768,332	27,556,082	(894,408)	114,430,006
Total capital assets not depreciated	145,229,705	27,556,082	(894,408)	171,891,379
	$398,963,653	$ 5,886,075	$ ---	$404,849,728

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

Interest capitalized for the years ended September 30, 2014 and 2013, totaled $1,619,195 and $1,189,963, 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.

4. Airport Facilities, continued

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

5. Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 2014 and 2013, consist of the following:

	2014	2013
General revenue bonds, Series 2013 (original issue of $247,335,000):		
Varying interest rates (3% - 6.375%) payable semiannually in October and April, principal payments due in varying annual installments with $9,845,000 due in October 2014	$247,335,000	$247,335,000
Less current installments	(9,845,000)	---
	237,490,000	247,335,000
Add net unamortized premium on bonds	2,690,971	2,891,161
	$240,180,971	$250,226,161

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

Year ending September 30,	Principal	Interest	Total Debt Service
2015	$ 9,845,000	$ 13,550,775	$ 23,395,775
2016	10,465,000	13,193,800	23,658,800
2017	10,890,000	12,712,250	23,602,250
2018	11,430,000	12,154,250	23,584,250
2019	12,010,000	11,568,250	23,578,250
Thereafter	192,695,000	138,542,644	331,237,644
	$247,335,000	$201,721,969	$449,056,969

5. Long-Term Revenue Bonds Payable, continued

General Revenue Bonds, Series 2013

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

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

The 2013 Bonds were obtained for the following:

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

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

The 2013 Bonds bear interest at a rate from 3% to 6.375% and mature on October 1, 2023 for the 2013 Series A (Non-AMT) and on October 1, 2043 for the 2013 Series B (Non-AMT) and 2013 Series C (AMT).

The 2013 Bonds are subject to redemption prior to maturity date.

The refunding resulted in a credit difference on refunding of $3,008,461 representing the difference between the reacquisition price and carrying amount of the 2003 bonds. The Authority netted the $2,422,781 unamortized difference from prior refunding against the $3,008,461 difference in current refunding, and the resulting net credit of $585,743 is presented as a deferred inflow of resources in the accompanying 2013 statement of net position. The $585,743 is to be deferred and amortized over the ten year original amortization period remaining from the 2003 bonds. As of September 30, 2014, the unamortized balance of the difference in refunding totals $486,540 as presented in the 2014 statement of net position.

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

5. Long-Term Revenue Bonds Payable, continued

General Revenue Bonds, Series 2013, continued

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

6. Long-Term Loan Payable to Bank

Long-term loan payable to bank at September 30, 2014 and 2013 consists of the following:

	2014	2013
First Hawaiian Bank, 5.75% interest rate fixed for 10 years, monthly payments of principal and interest in the amount of $130,625 starting on February 24, 2014, which will amortize the loan over a period of 10 years. The principal balance and all accrued interest will be due and payable on January 23, 2024. The loan is secured by a Security Agreement and a UCC-1 Financing Agreement. The loan is subject to U.S. Department of Agriculture's (USDA) written commitment to the bank to guaranty no less than 90% of the loan to the Authority	$11,301,193	$10,928,228
Less current installment	942,000	2,263,500
	$10,359,193	$ 8,664,728

On June 27, 2012, the Authority entered a loan agreement with First Hawaiian Bank (FHB) to finance the Authority's energy efficient upgrades. The loan amount is for $11.9 million. The disbursement of the loan proceeds will be based on the payment of the costs incurred for work actually done and improvements actually installed by a contractor under the performance contract. The loan will be disbursed directly to the contractor by FHB upon the Authority's approval. During the years ended September 30, 2014 and 2013, the amount of loan disbursed by FHB directly to the contractor totaled $11,900,000 and $10,928,228, respectively, and is recorded as part of capital assets and current portion and long-term loan payable in the accompanying statements of net position. Repayments during the year ended September 30, 2014 amounted to $598,807. The undisbursed portion of the loan at September 30, 2013 totaled $971,772. The $11.9 million is subject to USDA's Loan Note Guarantee, which was executed by USDA on March 10, 2014. At September 30, 2013, the loan was supported by a Conditional Commitment for Guarantee by the USDA.

6. Long-Term Loan Payable to Bank, continued

This loan is also secured by a Security Agreement and UCC-1 Financing Statement which identify sums in the Subordinate Securities Fund and Capital Improvement Fund as collateral for the loan. Both funds are allocated revenues pursuant to Section 5.02 of the Bond Indenture. Obligations of the Authority payable from the aforementioned funds are subordinate to the pledge and lien of airport revenues to secure payment of the Authority's bonds.

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

Future maturities of the FHB long-term loan payable are as follow:

Year ending September 30	
2015	$ 942,000
2016	998,000
2017	1,057,000
2018	1,119,000
2019	1,185,000
Thereafter	6,000,193
	$11,301,193

7. Investments and Cash with Trustees

The aforementioned 2013 and 2003 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 bond proceeds. At September 30, 2014 and 2013, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

	2014	2013
Operations and Maintenance Reserve Fund	$ 10,994,077	$ 10,097,454
General Revenue Fund	7,864,102	4,520,199
Federal Grant Funds	6,535,762	6,491,857
Risk and Loss Management Reserve Fund	5,158,460	4,849,745
Rebate Fund	1,399,956	1,399,734
Capital Improvement Fund	1,128,561	682,262
Operations and Maintenance Fund	43,556	135,024
Cost of Issuance	---	290,014
Total Unrestricted	33,124,474	28,466,289
Cash with Trustees	4,718	4,718
Construction Fund	102,716,987	109,864,890
Bond Reserve Funds	19,676,959	19,678,484
Debt Service Funds	16,697,811	1,184
Renewal and Replacement Fund	1,000,201	1,000,249
Total Restricted	140,096,676	130,549,525
	$173,221,150	$159,015,814

7. Investments and Cash with Trustees, continued

Investments are stated at fair market value. The amortized cost and fair value of investments at September 30, 2014 and 2013 are summarized as follows:

	2014			2013		
	Amortized Cost	Gross unrealized gains	Fair value	Amortized Cost	Gross unrealized gains	Fair value
Cash with trustees	$ 4,718	$ ---	$ 4,718	$ 4,718	$ ---	$ 4,718
Money market/ trust funds	158,094,666	40,134	158,134,800	142,054,510	---	142,054,510
Investment agreements	9,588,906	---	9,588,906	10,038,662	---	10,038,662
Short-term investments	3,141,938	20,043	3,161,981	4,879,510	31,267	4,910,777
U.S. Treasury notes	2,318,894	11,851	2,330,745	1,982,048	25,099	2,007,147
	$173,149,122	$72,028	$173,221,150	$158,959,448	$56,366	$159,015,814

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name;

Category 2 Investments that are uninsured and unregistered for which securities are held by the counterparty's trust department or agent in the Authority's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the Authority's name.

As of September 30, 2014 and 2013, all investments were classified as Category 2 investments.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, amended GASB Statement No. 3 to, in effect, eliminate disclosure for deposits and investments falling into categories 1 and 2 and provide for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

7. Investments and Cash with Trustees, continued

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. In compliance with the bond indenture, the Authority minimized the interest rate risk, by limiting maturity of investments. A majority of the Authority's investment securities have maturities of 5 years or less. This reduces the impact of interest rate movements seen with longer maturity investments.

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Based on negotiated trust and custody contracts, all of these investments were held in the Authority's name by the Authority's custodial financial institutions at September 30, 2014 and 2013.

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment.

7. Investments and Cash with Trustees, continued

At September 30, 2014, the Authority's investments were as follows:

	Standard & Poor's/Moody's Credit Rating	Investment Maturities (In Years) Less than 1	1 to 5	6 to 10	Greater than 10	Total
US treasury notes	Aaa-mf	$ ---	$2,325,985	$ ---	$ ---	$ 2,325,985
US government agencies:						
Federal Home Loan Mortgage Corporation	Aaa/AAA	149,999	647,732	---	---	797,731
Federal National Mortgage Association	Aaa/AAA	---	948,194	27,597	162,408	1,138,199
Corporate notes:						
CDC Funding Corporation	Aa3/A+	---	---	---	9,549,194	9,549,194
Other	Aaa/AAA	---	63,647	---	---	63,647
Other	Aa/AA	---	240,224	---	---	240,224
Other	A2	---	---	---	11,085	11,085
Other	A2/A	---	---	9,980	12,269	22,249
Other	A1/AA+	---	49,911	60,196	---	110,107
Other	A1/AA	---	---	3,506	3,518	7,024
Other	A1/AA-	---	---	---	2,245	2,245
Other	A	---	63,647	10,647	---	74,294
Other	A-	---	---	10,691	---	10,691
Other	BAA2/A-	---	110,517	127,659	27,723	265,899
Other	BAA2/BBB	---	54,539	74,792	---	129,331
Other	BAA1/BBB+	---	10,349	10,290	---	20,639
Other	Baa/BBB	---	157,326	---	---	157,326
Other	B1/BB	---	498,593	---	---	498,593
Money Market Funds:						
Fidelity Insurance Government	AAA	101,185,705	---	---	---	101,185,705
US Bank, NA	Aa2/Aa	16,696,599	---	---	9,680,300	26,376,899
Bank of Guam	BBB	24,304,859	---	---	---	24,304,859
Other	Not Rated	5,302,950	100,797	---	---	5,403,747
		$147,640,112	$5,271,461	$ 335,358	$19,448,742	$172,695,673
Cash						4,718
Accrued interest						520,759
						$173,221,150

7. Investments and Cash with Trustees, continued

At September 30, 2013, the Authority's investments were as follows:

	Standard & Poor's/Moody's Credit Rating	Investment Maturities (In Years) Less than 1	1 to 5	6 to 10	Greater than 10	Total
US treasury notes	Aaa-mf	$ ---	$2,003,154	$ ---	$ ---	$ 2,003,154
US government agencies:						
Federal Home Loan Mortgage Corporation	Aaa/AAA	349,963	751,202	201,186	---	1,302,351
Federal National Mortgage Association	Aaa/AAA	---	574,775	28,466	163,914	767,155
Corporate notes:						
CDC Funding Corporation	Aa3/A+	---	---	---	9,549,194	9,549,194
Other	Aaa/AAA	---	36,683	---	---	36,683
Other	Aa/AA	---	214,835	47,991	---	262,826
Other	A2	5,753	---	---	---	5,753
Other	A1/AA+	49,220	---	---	---	49,220
Other	A	---	504,190	176,330	---	680,520
Other	BAA2/A-	125,783	---	---	---	125,783
Other	BAA2/BBB	29,849	---	---	---	29,849
Other	BAA1/BBB+	10,322	---	---	---	10,322
Other	Baa/BBB	10,897	219,452	88,252	10,170	328,771
Other	B1/B+	248,525	---	---	---	248,525
Other	Not rated	184,775	---	---	---	184,775
Money Market Funds:						
US Bank, NA	Aa2/Aa	9,682,926	---	---	---	9,682,926
Citibank, NA	A1/A	4,068	---	---	---	4,068
Bank of Guam	BBB	132,346,537	---	---	---	132,346,537
Other	Not rated	878,741	---	---	---	878,741
		$143,927,359	$4,304,291	$542,225	$9,723,278	$158,497,153
Cash						4,718
Accrued interest						513,943
						$159,015,814

8. Employee Benefits and Other

Employee Retirement Plan

Employees of the Authority hired before September 30, 1995 are under the Government of Guam Employees Retirement System, a defined benefit pension plan (DB Plan). Employees hired after September 30, 1995, are members of the new Defined Contribution Retirement System (DCRS). Until December 31, 1999, and for several limited periods after December 31, 1999, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the DCRS. Otherwise, they remained under the old plan.

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

DB Plan

The DB Plan is a cost-sharing multiple-employer plan. A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website - www.ggrf.com.

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

Statutory contribution rates for employer and employee contributions were 29.85% and 9.55%, respectively, for the year ended September 30, 2014, 30.09% and 9.50%, respectively, for the year ended September 30, 2013 and 28.30% and 9.50%, respectively, for the year ended September 30, 2012.

Actuarial contribution rates were 30.03%, 30.76% and 30.09% for the years ended September 30, 2014, 2013 and 2012, respectively.

During the years ended September 30, 2014, 2013 and 2012, contributions made and accrued, which were equal to the required contributions for those years, amounted to $323,956, $326,586 and $325,013, respectively.

8. Employee Benefits and Other, continued

DCRS

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

Statutory employer contributions into the DCRS for the years ended September 30, 2014 and 2013 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

During the years ended September 30, 2014, 2013 and 2012, contributions made and amounts accrued under the DCRS amounted to $2,952,872, $3,418,375 and $2,368,797, respectively.

Retirement expense amounted to $3,276,828, $3,744,961 and $2,693,810 for the years ended September 30, 2014, 2013 and 2012, respectively.

Accrued Sick Leave

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. As of September 30, 2014 and 2013, the Authority has accrued an estimated liability of $325,104 and $197,783, respectively. However, this amount is an estimate and actual payout could differ from those estimates.

Other Post-Employment Benefits

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

8. Employee Benefits and Other, continued

During the years ended September 30, 2014, 2013 and 2012, the Authority's required contributions to this Plan totaled approximately $333,000, $338,000 and $367,000, respectively.

9. Leases

Lotte Duty Free Guam, LLC (Lotte)

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

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

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

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

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

For the years ended September 30, 2014 and 2013, the Authority recorded rental income under the Lotte concession agreement totaling $14,160,892 and $2,778,885, respectively for use of the main rental space. Subsequent to September 30, 2014 the main and future leasable space is utilized by Lotte.

Future minimum lease payments under the Lotte Concession Agreements as of September 30, 2014 are as follows:

Year ending September 30,	
2015	$ 15,400,000
2016	15,400,000
2017	15,400,000
2018	15,400,000
2019	15,400,000
Thereafter	59,033,333
Total future minimum lease payments receivable	$136,033,333

9. Leases, continued

Pac Air Properties, LLC

Effective February 22, 2008 (Commencement Date), the Authority and Pac Air Properties, LLC (Pac Air) agreed to amend and restate its existing ground lease agreement dated October 31, 2006 in its entirety. The new agreement has an initial lease term of fifty (50) years beginning on the commencement date, with an option on the part of Pac Air to renew for an additional ten (10) years. In accordance with the agreement, Pac Air shall make agreed-upon capital improvements at a cost of no less than $25 million to the leased premises with an area of approximately 540,000 square feet. On the termination or expiration of the lease, capital improvements will be surrendered to the Authority. The Authority shall waive rental payments during the construction phase but no later than the first two (2) years from the initial term of the lease. Beginning on the date of beneficial occupancy, which is on September 1, 2009 the date which marks the end of the construction phase and the waiver of rent, the monthly rent shall amount to $21,600 but payment of such rent shall be deferred for the next five (5) years, at such time the deferred rent shall be paid starting on September 1, 2014 in equal monthly installments over the next ten (10) years at the same time and under the same conditions as the regular monthly rent payments. For each of the years ended September 30, 2014 and 2013, the Authority accrued rental income totaling $259,200 and is included as a component of rental income in the accompanying statements of revenues, expenses and changes in net position. At September 30, 2014 and 2013, accrued rental receivable totals $1,258,200 and $1,058,400, respectively, and is shown as accounts receivable from tenant in the accompanying statements of net position.

Future minimum lease payments under the aforementioned Pac Air lease agreement are as follows:

Year ending September 30,	
2015	$ 259,200
2016	286,200
2017	286,200
2018	286,200
2019	288,450
Thereafter	19,200,053
Total future minimum lease payments receivable	$20,606,303

In 2010, the Authority entered into a lease-back agreement with Pac Air to lease a total of 32,500 square feet of space in the completed facility on the leased premises for 5 years with annual rent expenses of $1,058,400. Rent expense for each of the years ended September 30, 2014 and 2013 amounted to $1,058,400 and is included under contractual services in the accompanying statements of revenues, expenses and changes in net position.

9. Leases, continued

Pac Air Properties, LLC, continued

On December 2010, the Authority entered into a sublease agreement with the Government of Guam's Customs and Quarantine Agency (GovGuam CQA) to lease 25,000 square feet of the aforementioned 32,500 square feet rental space for 5 years, with annual rental income of $1,024,200. Rental income for each of the years ended September 30, 2014 and 2013 amounted to $1,024,200 and is included under rental income in the accompanying statements of revenues, expenses and changes in net position.

Future minimal rent expense arising from the Pac Air lease-back agreement and future minimal sublease income from GovGuam CQA is as follows:

Year ending September 30,	Lease back Expense	Sublease Income	Net Sublease Income
2015	$(923,400)	$1,024,200	$100,800

Other Leases

The Authority has lease agreements with scheduled air carriers, various concessionaires and other airport users. The agreements provide the lessees with the use of the airport's system facilities, equipment and services. The signatory airline operating agreements and terminal building leases expire on September 30, 2016. Other ground lease agreements will expire ranging from September 2015 through September 2035. The lease agreements with six rent-a-car companies will expire in June 2016.

Future minimum lease payments on other noncancellable operating leases (excluding the Lotte and Pac Air and GovGuam CQA lease described above) as of September 30, 2014 are as follows:

Year ending September 30,	
2015	$ 7,022,000
2016	6,288,000
2017	5,937,000
2018	1,359,000
2019	1,359,000
Thereafter	7,814,000
Total future minimum lease payments receivable	$29,779,000

10. Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal years 2014 and 2013 follows:

	Outstanding September 30, 2013	Increases	Decreases	Outstanding September 30, 2014	Current	Noncurrent
Accrued sick leave	$ 197,783	$ 127,321	$ ---	$ 325,104	$ ---	$ 325,104
Accrued annual leave	1,102,806	68,145	---	1,170,951	385,512	785,439
Loan payable to bank	10,928,228	971,772	598,807	11,301,193	942,000	10,359,193
2013 General revenue bonds	250,226,161	---	200,190	250,025,971	9,845,000	240,180,971
	$262,454,978	$1,167,238	$ 798,997	$262,823,219	$11,172,512	$251,650,707

	Outstanding September 30, 2012	Increases	Decreases	Outstanding September 30, 2013	Current	Noncurrent
Accrued sick leave	$ 159,480	$ 38,303	$ ---	$ 197,783	$ ---	$ 197,783
Accrued annual leave	995,171	107,635	---	1,102,806	354,394	748,412
Loan payable to bank	5,594,897	5,333,331	---	10,928,228	2,263,500	8,664,728
2003 General revenue bonds	155,696,456	---	155,696,456	---	---	---
2013 General revenue bonds	---	250,226,161	---	250,226,161	---	250,226,161
	$162,446,004	$255,705,430	$155,696,456	$262,454,978	$2,617,894	$259,837,084

11. Commitments and Contingencies

Environmental Response Actions

As discussed in Note 4, in September 2000, the Navy transferred 1,417 acres of property to the Authority and Government of Guam at no cost. In fiscal year 2001, the Navy paid the Authority $10,000,000 as a lump sum but not in accordance to the payment provisions of the Quitclaim Deed from the Navy. In exchange for the payment, the Authority and the Government of Guam apparently assumed obligations for environmental response actions addressing specific groundwater contamination even if the cost of the response actions exceeds the $10 million received from the Navy. The Authority's management has received the final draft of the Decision Document (DD) for Operable Unit 3 (OU3) which is the groundwater located under the former Naval Air Station. The DD presents the selected remedy for OU3 which is the remedial alternative 3. It calls for extraction and treatment at Well NAS-1 and future wells, if necessary, and natural attenuation. The DD identifies the Navy as the lead agency for the cleanup with support agencies that include the Authority, Guam Environmental Protection Agency (GEPA) and the US EPA. The Navy, the Authority and GEPA are the authorized signatories for the DD. After a due diligence review, the DD is expected to be executed during Fiscal Year 2015.

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

The long-term obligation to operate and maintain the facilities built under the remedial construction as well as the required sampling will be handled through a water system commercial agreement. As of September 30, 2014, the Authority estimated, based upon a weighted average probability of future cash outflows, that its pollution remediation obligations as called for under GASB No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* totaled $800,929. At September 30, 2014 and 2013, future pollution remediation and monitoring costs totaling $800,929 and $354,868, respectively, is reflected as a component of other current liabilities in the accompanying statements of net position.

Federal Program Costs

The Authority receives, on a reimbursement basis, grants from the U.S. Government for certain capital construction projects primarily through the Airport Improvement Program (AIP). The Authority also receives grants from other sources. These grants are subject to financial and compliance audits to ascertain whether federal laws and regulations have been followed.

11. Commitments and Contingencies, continued

Federal Program Costs, continued

As of September 30, 2011, questioned costs estimated to be at approximately $60,000 were identified based on the construction costs of interconnections as reported by an independent engineer during their review of the design and construction of the Authority's water system based on the grant applications submitted to the FAA. Based on additional verification by the project's construction manager, the Authority subsequently reimbursed the FAA the verified amount of approximately $60,000 on July 2012 to resolve the audit finding. The FAA then followed with a grant amendment letter to increase grant funding by $755,815 to reimburse the Authority for increased eligible project costs.

As of September 30, 2014, there were no unresolved questioned costs.

Commitments

The Authority has commitments totaling approximately $15.1 million under several construction contracts at September 30, 2014.

In addition, the Authority has commitments under other various contracts totaling approximately $10 million at September 30, 2014.

Insurance

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon damage. The Authority also maintains deposit of $1 million annually in the Renewal and Replacement Fund which will be combined with funds in the Risk and Loss Management Reserve Fund to cover damage in the event of a natural catastrophe. The balances in the Renewal and Replacement Fund and Risk and Loss Management Reserve Fund are $1,000,000 and $5,158,460 respectively, at September 30, 2014, and $1,000,000 and $4,852,628, respectively, at September 30, 2013. The Authority has a catastrophic insurance policy with coverage up to $5 million as a supplement to the self-insurance.

Government of Guam General Fund

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

11. Commitments and Contingencies, continued

Notwithstanding the requirements of 5 G.C.A. § 22421, the Authority is prohibited by its 2013 General Revenue Bond Indentures (2013 Indentures) and federal law from transferring any funds from its operating surplus to the General Fund. Any diversion of the Authority's revenues under any formula will place the Authority in breach of the 2013 Indentures and will jeopardize ongoing and future federal funding, possibly even subjecting the Authority to millions of dollars in federal civil penalties. Accordingly, the Authority cannot transfer any of its revenues to the General Fund as directed by 5 G.C.A. § 22421 and no liability has been recorded for this contingency as of September 30, 2014 and 2013. This position has been supported by legal determinations, past and present.

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

During the course of Fiscal Year 2014, there was no substantive progress of discussions with the Executive and Legislative branches to repeal 5 GCA § 22421 or on the issue of the Government of Guam assessment.

Water System Infrastructure Upgrade

The new airport water system was commissioned and made operational in phases during 2012. Concurrent with the commissioning of the new airport water system, the Authority entered into an interim agreement with Guam Waterworks Authority (GWA) to operate and maintain the water system for a minimum of one year. GWA's system rates will be status quo during the interim period. Moreover, the Authority is to monitor the system operations and maintenance processes and collect baseline data for subsequent negotiations with GWA for a longer term agreement.

A new water system commercial agreement is currently being drafted between the Authority and GWA to account for operational and maintenance omissions and deficiencies and to improve repair and replacement procedures.

Although, the Authority continues to assert that all costs associated with the airport water system are supported by adequate documentary evidence, the Authority did reimburse the FAA for questioned costs as noted in the above *Federal Program Costs.* As a final measure, the FAA would require that the independent engineering firm that performed the review of the airport water system project assess that the final agreement between the Authority and GWA conforms to the uses as noted in their report.

11. Commitments and Contingencies, continued

Litigation

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

Duty Free Shoppers (DFS) Protest

On May 30, 2013, DFS, the former primary concessionaire, filed a notice of appeal of the Authority's denial of DFS's first protest with the Office of Public Accountability (OPA). On December 26, 2013, the OPA issued an order that it is precluded from proceeding with DFS's appeal at this time.

On May 30, 2013, DFS also filed a civil action seeking judicial review of the Authority's denial of the first DFS protest. On July 19, 2013, the Court issued a Decision and Order dismissing the action for lack of subject matter jurisdiction.

The Authority filed a motion for monetary sanctions against DFS and its attorneys for alleged filing of a frivolous action in the Superior Court. Additionally, the Authority requested that the Court reconsider its decision to withdraw statements made by the Court that it exceeded its jurisdiction and were inconsistent with its holdings. The Superior Court denied the Authority's motions for sanctions and denied its motion for reconsideration. The Authority has appealed these decisions and the matter is currently pending before the Supreme Court of Guam.

Exchange License Agreement

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

Surveys had discovered that the Authority had encroached onto Core Tech land wherein the Authority constructed a parking lot and a drainage ponding basin as part of renovations to two barracks that the Authority leased to the Government of Guam Customs & Quarantine Agency.

In lieu of receipt of back rentals and future rentals for use of the encroached property, Core Tech accepted, in exchange, the use of the Authority's three building that were in a state of disrepair and had environmental concerns. The agreement requires Core Tech to make repairs and mitigate all environmental issues over the buildings.

At the time the exchange license agreement was entered into, the fair market values of the assets involved by the parties were not determinable.

11. Commitments and Contingencies, continued

Other

In December of 2012, the Department of Administration paid out merit bonuses for line agency employees who met the criteria set forth pursuant to 4 GCA Chapter 6 § 6203. Merit bonuses are to be paid to employees who receive a superior rating evaluation conducted for increment purposes. The Authority is currently conducting its due diligence to determine its obligation to pay out merit bonuses. At September 30, 2013, the Authority has accrued about $1.5 million as an estimate of costs to pay bonuses for the airport employees. In addition, the Authority has accrued about $681,000 as costs for the last incremental 10% salary increase for Airport Rescue Firefighters and Airport Police uniformed personnel pursuant to Public Law 29-105. This payment is for fiscal years 2012 and 2013. During the year ended September 30, 2014, the Authority paid approximately $1,770,000 and at September 30, 2014, $450,000 remained as unpaid obligation for inactive employees.

12. Customs, Agriculture and Quarantine Inspection Services Charge

During the years ended September 30, 2014 and 2013, the Authority has assessed and collected from air carriers fees for customs and agricultural inspection services rendered at the Airport terminal. Guam Public Law 23-45 requires the Authority to remit all collections, within five days of receipt, to the Treasurer of Guam for deposit to the Customs, Agriculture and Quarantine Inspection Services Fund.

At September 30, 2014 and 2013, the Authority recorded customs fees payable to the Treasurer of Guam totaling $2,658,915 and $1,867,990, respectively, for the above charges, of which $1,998,876 and $1,417,249, respectively, are reflected as customs fees, receivables in the accompanying statements of net position. The fees are not reflected as an expense or revenue by the Authority.

13. Non-recurring Income

In August of 2014, a Grant of Easement was executed between the Department of Public Works (DPW) and the Authority where the latter transferred interest of 61,681± square meters of real property to DPW to facilitate construction of Phase I of the Tiyan Parkway. In turn, DPW the recipient of funds from the Federal Highway Administration accepted an Affidavit of True Consideration and transferred $3,760,000 to the Authority as a onetime payment for the aforementioned grant of easement. The $3,760,000 is reflected as a non-recurring income in the 2014 statement of revenues, expenses and changes in net position.

Supplementary Information

Schedule 1
Facilities and Systems Usage Charges

	2014	2013
Arrival facilities	$ 6,148,322	$ 7,336,052
Departure facilities	5,887,352	6,942,472
Passenger loading bridge usage charge	5,799,828	4,666,053
Landing fees	2,763,526	2,963,427
Immigration	2,292,927	2,737,477
Public apron	1,725,965	1,691,203
Utility recovery and other fees	550,085	546,453
Fuel flowage fees	203,172	193,538
	$ 25,371,177	$ 27,076,675

Schedule 2
Concession Fees

	2014	2013
General merchandise	$ 14,729,734	$ 9,079,528
Ground transportation	4,695,730	5,165,180
Car rental	986,970	948,904
Food and beverage	936,410	913,962
In-flight catering	862,540	811,521
Advertising	398,333	433,155
Money exchange	391,425	352,749
Parking lot	178,560	175,655
Other	148,725	141,910
	$ 23,328,427	$ 18,022,564

Schedule 3
Rental Income

	2014	2013
Operating space:		
- Non-airline	$ 3,902,492	$ 3,997,694
- Airline	3,189,198	3,469,810
Building and maintenance shop rentals	1,895,701	1,965,001
Other	1,520,548	1,552,772
Cargo rentals	252,285	266,896
	$ 10,760,224	$ 11,252,173

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2014 and 2013

Schedule 4
Contractual Services

	2014	2013
Power	$ 6,283,264	$ 6,468,615
Repairs and maintenance	5,526,034	5,654,711
Professional services	4,249,153	2,842,162
Miscellaneous	1,759,662	1,717,972
Insurance	1,122,293	1,356,787
Utilities and telephone	638,325	690,799
Advertising and promotions	499,883	460,270
Travel/training and certifications	201,853	195,803
	$ 20,280,467	$ 19,387,119

Schedule 5
Personnel Services

	2014	2013
Salaries and wages	$ 12,821,034	$ 12,883,180
Retirement contributions	3,283,828	3,744,961
Insurance	918,843	835,516
	$ 17,023,705	$ 17,463,657
Full-time employee count in September	210	190

Schedule 6
Materials and Supplies

	2014	2013
Equipment and vehicle maintenance and supplies	$ 423,025	$ 415,630
Miscellaneous	280,062	237,433
Office and security supplies	210,017	227,685
Electrical and plumbing	129,099	130,780
Building maintenance and supplies	90,352	67,226
	$ 1,132,555	$ 1,078,754

Schedule 7
Insurance Coverage

Name of Insurer	Policy	Risk Coverage
Dongbu Insurance Co., Ltd. Seoul, Korea	Airport Operations Liability	$ 500,000,000
AIG/National Union Fire Insurance Company of Pittsburg, PA.	Property Insurance	$ 200,000,000
AIG/National Union Fire Insurance Company of Pittsburg, PA.	Catastrophe Insurance	$ 5,000,000
Dongbu Insurance Co., Ltd. Seoul, Korea	Directors & Officers Liability (Sublimit of $1,000,000 for Employment Practices Liability)	$ 4,000,000
Dongbu Insurance Co., Ltd. Seoul, Korea	Automobile	$ 2,000,000
AIG/National Union Fire Insurance Company of Pittsburg, PA.	Workers' Compensation	$ 1,000,000
Dongbu Insurance Co., Ltd. Seoul, Korea	Crime Insurance	$ 1,000,000

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2014 and 2013

Schedule 8
Reconciliation of Historical Financial Results

	Year ended September 30, 2014	2013
Change in net position:		
Revenues	$ 69,113,673	$ 69,343,477
Expenses	(38,598,701)	(38,426,706)
Income before depreciation	30,514,972	30,916,771
Depreciation	(21,915,920)	(22,668,001)
	8,599,052	8,248,770
Non-recurring income	3,760,000	---
Interest and other expenses	(13,500,533)	(10,630,516)
Transfer from Government of Guam - OHS	5,690	14,701
Grants from the United States Government	12,635,414	17,435,986
Increase in net position	$ 11,499,623	$ 15,068,941
Net Revenues (per Bond Resolution):		
Revenues	$ 69,113,673	$ 69,343,477
Operation and maintenance expenses	(38,249,936)	(38,024,802)
Net revenues available for debt service	$ 30,863,737	$ 31,318,675
Reconciliation:		
Change in net position	$ 11,499,623	$ 15,068,941
Add back:		
Depreciation	21,915,920	22,668,001
Interest expense	13,248,425	6,093,981
Miscellaneous	---	4,073,997
Deduct:		
Capital grants from the United States Government	(11,755,448)	(16,489,713)
Non-recurring income	(3,760,000)	---
Interest income on funds related to construction	(87,320)	(96,532)
Miscellaneous	(197,463)	---
	30,863,737	31,318,675
Other available monies	6,066,606	4,328,486
Funds available for debt service	$ 36,930,343	$ 35,647,161
Debt Service*	$ 24,266,424	$ 17,313,944
Debt Service Ratio	1.52	2.06

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

Antonio B. Won Pat International Airport Authority, Guam

Years ended September 30, 2014 and 2013

Schedule 9
Employee Data

Department	Employees (b) 2014	Employees (b) 2013	Personnel Services (a) 2014	Personnel Services (a) 2013
Board	1	1	$ 56,844	$ 57,095
Administration	33 (c)	31 (c)	2,737,136	2,798,733
Property Management	10	9	881,557	825,559
Accounting	11	10	834,924	884,279
Engineering	3	3	292,643	299,293
Operations	21	19	1,621,648	1,722,724
Properties & Facilities Maintenance	40	40	2,476,600	2,690,676
Airport Police	50	48	4,056,021	4,524,772
Aircraft Rescue Fire Fighting	41	29	4,066,332	3,660,526
Total	210	190	$ 17,023,705	$ 17,463,657

Notes:

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

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

c. Administration consists of:

	2014	2013
Executive management	3	2
Administrative support	11	12
Personnel	4	3
Marketing	4	3
Procurement	7	7
Management information system	4	4
	33	31