

*Financial Statements, Required Supplementary
Information, and Supplementary and Other Information*

**Antonio B. Won Pat International Airport
Authority, Guam**

(A Component Unit of the Government of Guam)

*Year ended September 30, 2022
with Report of Independent Auditors*

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

Financial Statements, Required Supplementary Information,
and Supplementary and Other Information

Year ended September 30, 2022

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of September 30, 2022, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 25, the Schedule of the Authority's Proportionate Share of the Net Pension Liability on pages 79, 81 and 83, the Schedule of the Authority's Contributions on pages 80, 82, 84 and 86 and the Schedule of the Authority's Proportionate Share of Collective Total Other Postemployment Benefit Liability on page 85 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included in pages 88, 89 and 91 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the Insurance Coverage on page 90 and the Employee Data on page 92 but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

August 24, 2023

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

Management's Discussion and Analysis

Year ended September 30, 2022

The following Management's Discussion and Analysis of the activities and financial performance of the Antonio B. Won Pat International Airport Authority, Guam (the "Authority") provides the reader with an introduction and overview to the financial statements for the fiscal year ("FY") ended September 30, 2022. 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 Oceania. 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.

A. Mission Statement

The Authority strives to ensure the safety and security of the traveling public, maintain superior and reliable level of airport services, and support the development of air services and facilities which are integral to the island's economic growth. The Authority's vision is to advance Guam further as the first-class premier air transportation hub of the region.

B. Using the Financial Statements

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

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

C. Authority Activities and Highlights

During FY 2022, the Authority began its journey towards recovery as Guam and other economies within Micronesia and the Asian regions ascended from the adverse impacts of the COVID-19 pandemic. The Authority focused on restoring traveler confidence and worked on preparing Guam's only commercial airport for the recovery of air traffic to, from, and through Guam.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

During FY 2022, the Government of Guam and the United States began to reduce and eventually eliminate COVID-19-related travel entry requirements. The Authority's source markets of Japan, South Korea, Taiwan, and the Philippines, likewise began to relax its COVID-19-related travel restrictions, which spurred additional travel during the second half of FY 2022.

The Authority's total passenger movements for FY 2022 amounted to 745,717. Passenger enplanements (departing & transit passengers) accounted for 56%, or 418,234. Arriving passengers accounted for 44%, or 327,483. Approximately 41% of arriving travelers came from South Korea, a key origin/destination (O&D) market for Guam, with 29% percent arriving from the O&D markets of Japan, China, Taiwan, and the Philippines. Domestic markets of Hawaii and the Commonwealth of the Northern Marianas Islands accounted for 30% of arrivals to Guam. In addition, the Authority managed 18,756 aircraft movements, and its airline partners moved over 17,080 metric tons of cargo and 16,972 metric tons of mail.

The Airport, as an essential facility to the island's tourism-driven economy, is a hub for Micronesia that continues to provide connectivity from the region to the rest of the world. Before the COVID-19 pandemic, Guam's average annual airport activity exceeded 3 million passenger movements, 20,000 metric tons of cargo, and more than 50,000 flight movements to 24 destinations, which include Hawaii, Japan, South Korea, China, Taiwan, Philippines, and Oceania. The island's proximity within 3 to 5 hours of any major city in Asia and the Oceanic region makes Guam an ideal vacation destination for tourists from these markets.

The following airlines served the Authority with scheduled passenger service for FY 2022: United Airlines, Japan Airlines, Korean Air, Philippine Airlines, Jin Air, Jeju Air, Air Busan, T'Way Air, Air Seoul, and Aerospace Concepts (which operates as a business jet service).

Other airlines include all-cargo operators Asia Pacific Airlines, Federal Express, and UPS. Star Marianas, Arctic Circle, and Marianas Southern Airways provided services to the CNMI from Guam utilizing aircraft weighing 12,500 pounds or lower on a scheduled and charter basis for passenger/cargo services.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

	<u>2022</u>	<u>2021</u>	2022 % Increase (Decrease) <u>from 2021</u>
Major revenue sources:			
Landing fees	\$ 2,797,423	\$ 799,651	249.8%
Terminal lease	9,402,140	10,546,710	-10.9%
Concessions and parking	12,737,330	5,509,942	131.2%
Total	\$ 24,936,893	\$ 16,856,303	47.9%
Passenger (enplanements) activity:			
Signatory airlines	408,439	124,856	227.1%
Non-signatory and other airlines	9,795	10,710	-8.5%
Total enplanements	418,234	135,566	208.5%
Aircraft operations	18,756	12,408	51.2%
Aircraft landed weights (000,000)	1,699,584	1,582,331	7.4%
O & D passengers	656,676	189,733	246.1%
Transfer passengers	89,041	33,870	162.9%
Total passengers	745,717	223,603	233.5%

Capital Improvement Program

FY 2022 was a banner year for the completion of several capital improvement projects focused on enhancing the safety and security for the community and the traveling public, increasing capacity, reducing airport noise, and generating or sustaining air service to current or new markets. Federally funded projects or projects essential to maintaining 24/7 airport operations and compliance with FAR Part 139 were the Authority's priority. These notable projects included the following:

Third Floor International Arrivals Corridor with Seismic Upgrades. This project was substantially completed in December 2021 and went operational January 2022. This provided the Authority a permanent solution to a federal mandate to separate arriving non-Transportation Security Administration (TSA)-screened passengers from departing TSA-screened passengers, as well as seismic upgrades to the passenger terminal building infrastructure to support the new Third Floor International Arrivals Corridor. Sources of funding for this project included proceeds from the Series 2013 Bonds, capital improvement funds, and Federal Aviation Administration's (FAA) entitlement grants.

Aircraft Rescue and Firefighting Facility. This project was substantially completed in August 2022 and beneficial occupancy occurred the following October. The new 38,500 square feet, state-of-the-art Aircraft Rescue Fire Fighting station is expected to enhance and optimize the response time for ARFF units to any emergencies on or around the Airport. The total project cost is approximately \$27.8 million and was 90% funded through the FAA.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Capital Improvement Program, continued

Runway 6L/24R Rehabilitation. This project consists of two phases. The first phase includes the rehabilitation and reconstruction of over 1,550 linear feet of runway (Phase 1a) and the rehabilitation and reconstruction of an additional 1,450 linear feet of runway (Phase 1b). Phase 1a and Phase 1b are complete. The second phase (Phase 2), which will include the rehabilitation of over 4,000 linear feet of runway previously constructed using PCC pavement, is currently underway and is expected to be completed by second quarter of FY 2023. Total project costs are expected to be approximately \$27.8 million with 90% funded by the FAA.

Master Plan Update. In November 2021, the Authority kicked off the update to its 2012 Master Plan. Guam's only commercial airport is part of a dynamic and turbulent aviation industry that has seen several changes over the past ten years. The Authority's updated master plan will reflect current conditions and forecast airport activity accordingly. In addition, it will consider new environmental and other regulatory factors. And then plan for future facilities and compatible land uses to support projected aeronautical and non-aeronautical needs for long-term financial viability and sustainability. Key components include renovations to optimize ticketing lobby configurations, an expanded security queuing area, upgrades to gates and hold rooms, and enhanced airport concessions. Additionally, the Airport Layout Plan (ALP) will be updated and include the Authority's Capital Improvement Program to allow for strategic financial planning for the continued development of the island's only commercial airport. This project is 90% funded with FAA discretionary funds.

Projects in Planning Process

These are critical projects that are at least 90% federally funded or essential to the mission of the Authority:

Update the Part 150 Noise Study. The Part 150 Noise Compatibility Study is to develop updated noise exposure maps for land use planning and noise mitigation in and around Guam's airport, and to provide updates to its Noise Compatibility Program. The approximate cost of the project is \$2.2 million. 90% is funded through the FAA's Airport Noise set-aside funding program.

Cargo Apron/Fuel System Extension. This project entails the design and construction for a cargo apron and connecting taxiway, and the extension of the Authority's into-plane fuel system to provide service for a minimum of two all-cargo freighters at the Integrated Air Cargo Facility located a half mile west of the air terminal. The Authority anticipates this project will be 90% funded with FAA discretionary funds.

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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Capital Improvement Program, continued

Apron and Taxiway Rehabilitation. This project includes rehabilitating approximately 1.5 million square feet (150,000 square yards) of parking/apron areas and Kilo taxiway in front of the terminal and airfield. The project will enable the Authority to maintain its capacity and to increase the safety and efficiency of aircraft and ground support equipment operations, personnel activities, passenger movements and airport servicing. The Authority anticipates this project to be 90% funded through FAA supplemental funding and funds allocated under the 2022 Bipartisan Infrastructure Law (BIL).

Replacement of Terminal Roofing System. Request for Proposals for the design and installation of a new roofing system for the Authority's main terminal was issued in FY 2022. The Authority intends to replace and improve the terminal area roof membrane that is not connected to the 3rd Floor International Arrivals Corridor for more energy efficiencies and cost savings, while sealing leakages and repairing other damage to its existing roofing infrastructure.

Zero Emissions Vehicles (ZEV). In line with the FAA's Modernization and Reform Act of 2012, the Authority is looking to improve air quality through reduced emissions at Guam's airport through the acquisition and operation of zero-emissions vehicles (ZEVs). The study will identify the Authority's baseline conditions and determine the air quality benefits and reduction of Nitrogen Oxides and Volatile Organic Compounds through ZEVs. The study would also identify the Authority's ZEV needs, plan for the acquisition, and develop the A&E for the construction or modification of infrastructure to facilitate the delivery of energy and services necessary for these vehicles.

IT Infrastructure & Financial Management System. The Authority issued a Request for Proposal (RFP) to assess the various infrastructure, systems, and equipment, operational processes, and financial management and accounting processes in order to synergize, maintain, and manage these systems through a fully integrated management system.

Fire Alarm/Fire Suppression Infrastructure Update. This project is meant to update the Authority's fire alarm/fire suppression infrastructure to integrate all facilities under the Authority's jurisdiction into one centralized command and control system.

Residential Sound Solution Program (RSSP). This project is an ongoing FAA program that allows the Authority to provide for noise mitigation of residences located within the 65db range. The program is subject to federal funding limitations. The Authority has completed the preliminary screening of seventy homes that are eligible for this program. They will proceed with this program once the Noise Compatibility Program, which is a key component of the RSSP, is updated.

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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Sustainability Initiatives

As the Authority's journey to recovery was uneven and intermittent (along with the rest of the travel industry), FY 2022 presented an opportunity to explore initiatives to tie sustainable development into its planning processes, including it as part of its master plan update. As a key economic driver for Guam, sustainable development is important so future generations can continue to explore, learn, trade, build markets, appreciate, and connect with other cultures and people all over the world.

Moreover, with the movement by the entire aviation industry including the US government, the Airports Council International (ACI), the International Air Transport Association (IATA), and the International Civil Aviation Organization (ICAO) toward a net-zero carbon emissions goal by 2050, emphasis will be for airlines to upgrade their fleets to newer and greener equipment, fly more efficient routes, find sustainable solutions for aviation fueling, and operate from environmentally responsible airports, through a more resilient and integrated airspace system.

The Authority applied for and was awarded funding for the purchase of three (3) sedans and four (4) light vehicle trucks under the FAA's Zero Emissions Vehicle (ZEV) program. This will allow the Authority to begin its transition and modernize its fleet of gas-powered vehicles to those which are operated by an all-electric or hydrogen-powered drivetrain. In addition, the Authority is looking to implement a solar energy plan through a public/private partnership and is in the process of creating and designing a robust utility infrastructure through the relocation of its power distribution and telecommunications infrastructure, to minimize service interruptions due to extraordinary or catastrophic events.

Reducing its carbon footprint while continuing development to optimize and increase capacity in a safe and healthy airport environment are tenets of the Authority's sustainable strategy. From planning for capital improvement projects (to include the financing, design, construction, and operations), to enhancing the passenger experience by improving processes and efficiencies, to workforce development and community engagement, the Authority is committed to initiatives that will preserve resources and achieve long-term sustainability. Developing a clear sustainable strategy to help guide and not constrain decision-making will position the Authority to access capital and grow without compromising future generations. Through this systematic approach, the Authority will be able to understand and accommodate the needs of its stakeholders from a social, environmental, and economic perspective.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Other Initiatives and Operational Activities

Cargo Transshipment

The Authority is exploring opportunities to create a bonded warehouse facility, an agricultural inspection and fumigation facility, and opportunities for a transshipment hub with the establishment of a TSA-certified cargo screening program through a concerted effort with the Governor's office, governmental partners (Guam Economic Development Authority, Port Authority of Guam, and others), and industry stakeholders. Procuring the services for the design of the air cargo apron and fuel system extension to provide direct access for a minimum of two all-cargo freighters to the Integrated Air Cargo Facility is underway. And we are exploring other opportunities through the master plan process to identify other initiatives to enhance the Integrated Air Cargo Facility.

Air Service Development

The Authority continued to encourage more airline activity, seek economic opportunities, and provide more operational flexibility. In May 2022, the Authority introduced the Airline Recovery Assistance and Incentivizing Service (RAISE) Program to incentivize and stimulate air service travel demand in anticipation of Guam's plans to safely re-open. This was intended to attract and encourage air service from all destinations in the Asia-Pacific region and included the following:

- 1. All Destinations:** All city destinations in the non-U.S., Asia-Pacific region with direct scheduled air service or scheduled on-demand air service to Guam.
- 2. Air Carriers:** Open to all U.S. and foreign based airlines that possess all governmental authorizations. Tour wholesalers and agencies are ineligible for the Airline RAISE Program incentives but may factor such programs in their negotiations with an airline operator.
- 3. Duration:** Beginning May 1, 2022 through September 30, 2022.
- 4. Minimum Weekly Frequency:** Airline RAISE Program applies to passenger air service with a minimum of one (1) flight per week, per destination.
- 5. Rates & Charges Discount:** The Airline Raise Program applies to operational rates and charges published in the Airport Tariff Schedule for the duration of the program and limited to the Airfield Use (Landing) Fee, Loading Bridge Use, Immigration Inspection, Arrivals and Departure Fees only.

The cumulative percentage discount included up to 25% of the operational rates for a minimum of one flight per week. The rates and charges discounts were applied monthly pursuant to the airline activity report for the prior month. Additional incentives or destinations were provided on a case-by-case, non-preferential basis subject to review, negotiations, and approval by GIAA management.

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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Other Initiatives and Operational Activities, continued

Air Service Development, continued

The Authority attended the Routes Asia forum in FY 2022 to meet with targeted airlines to push the incentives. They were met with much enthusiasm and interest from potential airline partners.

Other initiatives included seeking access to Haneda Airport in Tokyo, Japan, and the pursuit of expanded air services to provide more operational flexibility for foreign airline partners. In August 2022, a team from Guam from the Governor's Office, the Guam Visitors Bureau, and the Authority met with members from the U.S. Department of Transportation, the FAA, and the TSA. In September 2022, a similar delegation met with representatives from Haneda Airport and potential airline partners in Manila, Philippines. Work continues to progress in these endeavors.

Intergovernmental Coordination (Federal and Local)

The Authority continued work with other federal and local governmental entities, elevating the Authority's posture as a key driver for Guam's island economy and the Micronesian region, and a vital element of the US' Indo-Pacific strategy.

Federal Coordination

National Defense. Through the years, the Authority has supported the U.S. Department of Defense initiatives and is a vital linkage to support commercial aviation uses by the military. Guam's airport serves as an alternate/support airport for military activities and training exercises and is ready to serve when called upon 24/7. The Authority supported Cope North 2022 and other military operations in FY 2022.

Emergency Management. The Authority is a partner with the US Federal Emergency Management Agency (FEMA). Guam's airport is a key prepositioning location for supplies and equipment that assist FEMA to consolidate its civilian requirements with the military mission.

Homeland Security. In March 2022, the Authority's Airport Police, Operations, and Properties and Facilities divisions trained extensively with the US Department of Homeland Security's Cybersecurity and Infrastructure Security Agency, Office of Bombing Prevention on bombing prevention, surveillance for bombing prevention, and vehicle-borne improvised explosive device detection. This training was essential for the Authority's personnel responsible for the safety and security of the island's only commercial airport, and helped to develop strategies to prevent, protect against, respond to, and mitigate bombing incidents.

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Management's Discussion and Analysis, continued

C. Authority Activities and Highlights, continued

Intergovernmental Coordination (Federal and Local), continued

Local Coordination

Department of Agriculture. The Authority collaborates with the United States Department of Agriculture to improve technology and barriers at the airport to control invasive species access to the island's major ports of entry.

Department of Public Works. The Authority is working with the Department of Public Works (DPW) to proceed with roadway improvements adjacent to airport property that will increase capacity and traffic circulation. These improvements include Phase II of the Tiyan Parkway, which is a 1.5-mile roadway system that serves over 15,000 motorists daily as well as the expansion of Route 10A fronting the airport. This 2-mile stretch of road connects Route 1 Marine Corps Drive and Route 16 Army Drive. The expansion of Mariner Avenue on the south side of the Airport Property is another roadway improvement that the Authority supports. This would provide easier access to our tenants and business partners on south Tiyan, and minimize the heavy congestion experienced at the tri-intersection of Route 8, 10, and 16.

Most Efficient Airport in Asia (Small Airport Category)

For the fifth consecutive year, the Authority's reputation in the region for operational excellence on a global scale was recognized by the Air Transport Research Society (ATRS), because of its 2022 Global Airport Performance Benchmarking Report. Guam's airport was selected as achieving the "2022 Top Asia Airport Efficiency Excellence, in the under 10 million passengers per year category."

The ATRS Global Airport Benchmarking measures and compares the performance of several aspects of airport operations: productivity and efficiency, unit costs and cost competitiveness, financial results, and airport charges. The 2022 report included 205 airports and twenty-four airport groups of various sizes and ownership forms in Asia Pacific, Europe and North America. Initiated in 2000 at the University of British Columbia, the project is now hosted at the College of Business at Embry Riddle Aeronautical University in Daytona Beach, Florida, and is guided by a 16-member task force of leading academics from Asia Pacific, Europe, and North America.

FAR Part 139 Certification

In March 2022, the Authority underwent its annual FAR Part 139 Inspection. Inspectors from the FAA's Western Pacific Airports District Office and the FAA Honolulu Airport District Office conducted the FAR Part 139 inspection of the Authority's airport operations and facilities. This intensive inspection covers 123 inspection fields of safety and security. Through the diligence and professionalism of the Authority's staff and management (as noted by the FAA inspectors), Guam's only commercial airport was once again certified and deemed "safe!".

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

D. Financial Operation Highlights

Total Net Position

The Authority's total net position in FY 2022 amounted to \$281.6 million. The completion of several of the Authority's capital improvement projects, including the Third Floor International Arrivals Corridor, the Runway Rehabilitation projects, and the Aircraft Rescue and Firefighting facility, accounted for \$325.1 million invested in capital assets – net of related debt. Restricted assets remained healthy at \$21.4 million. The Authority expended \$64.9 million in unrestricted assets to undertake its capital improvement program. The refinancing and restructuring of the Authority's revenue bonds, combined with assistance from the Bipartisan Infrastructure Law and the FAA's Airport Improvement Program, helped the Authority maintain a solid financial position in FY 2022.

Total assets and deferred outflow of resources equaled \$625.4 million. Capital assets reflect \$501.2 million. Unrestricted and restricted non-current assets accounted for \$29.9 million and \$21.4 million, respectively. Non-current airport lease receivables totaled \$7.8 million for the year. Deferred differences on refunding of the 2019 bonds amounted to \$13.2 million.

Total liabilities amounted to \$304.2 million for FY 2022. Long-term liabilities accounted for approximately 90% of total liabilities and equated to \$272.9 million for the year, and attributed to the Authority's refinancing and restructuring of \$143 million of its general revenue bonds in 2021.

In addition to the above, the Authority records pension and other post-employment benefits (OPEB) in conformance with GASB Nos. 68 and 75. As of September 30, 2022, deferred outflow for pension and OPEB totaled \$19.9 million. Deferred inflow for pension and OPEB was \$25.2 million for FY 2022.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Financial Position Summary

A condensed summary of the Authority's Statements of Net Position at September 30, 2022 and 2021 is shown below:

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>	2022 % Increase (Decrease) from 2021
Current assets:			
Unrestricted current assets	\$ 26,921,895	\$ 13,241,990	103.3%
Restricted current assets	966,439	300,544	221.6%
Non-current assets:			
Unrestricted assets	29,905,885	40,430,483	-26.0%
Restricted assets	21,351,555	25,983,877	-17.8%
Capital assets	501,203,823	489,655,295	2.4%
Avigation easements	4,016,811	5,292,992	-24.1%
Leases	7,836,887	248,400	3054.9%
Deferred outflow - pension	4,850,322	7,135,101	-32.0%
Deferred outflow - other postemployment benefits	15,098,596	18,247,009	-17.3%
Deferred differences on refunding of 2019 bonds	<u>13,240,344</u>	<u>14,581,473</u>	-9.2%
Total assets and deferred outflow of resources	<u>\$ 625,392,557</u>	<u>\$ 615,117,164</u>	1.7%
<u>LIABILITIES</u>			
Current liabilities:			
Payable from unrestricted assets	\$ 30,287,702	\$ 27,104,064	11.7%
Payable from restricted assets	967,035	300,915	221.4%
Long term liabilities	<u>272,943,019</u>	<u>276,275,058</u>	-1.2%
Total liabilities	<u>304,197,756</u>	<u>303,680,037</u>	0.2%
Deferred inflow of resources:			
Deferred differences on refunding of 2013 bonds	12,568	36,497	-65.6%
Deferred inflow - leases	14,441,965	-	100.0%
Deferred inflow - pension	3,831,131	704,214	444.0%
Deferred inflow - other post employment benefits	<u>21,335,001</u>	<u>28,800,329</u>	-25.9%
Total deferred inflow of resources	39,620,665	29,541,040	34.1%
<u>NET POSITION</u>			
Invested in capital assets - net of related debt	325,089,725	314,733,483	3.3%
Restricted	21,351,555	25,983,877	-17.8%
Unrestricted	<u>(64,867,144)</u>	<u>(58,821,273)</u>	10.3%
Total net position	<u>281,574,136</u>	<u>281,896,087</u>	-0.1%
Total liabilities and net position	<u>\$ 625,392,557</u>	<u>\$ 615,117,164</u>	1.7%

* FY 2022 includes effects of GASB No. 87 Implementation

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Total Revenues

The Authority received \$83.9 million in total revenues for FY 2022. Total operating revenues generated 39.5% of this revenue, equal to \$33.2 million. Non-operating revenues accounted for 60.5% generating an additional \$50.7 million for FY 2022.

Operating Revenues

Of the \$33.2 million in total operating revenues, \$10.5 million was derived from the total facilities and use charges. \$12.7 million came from total concession fees, of which \$4.8 million was due to the implementation of GASB No. 87, Leases, to improve accounting and financial reporting for leases by governments. Rental income accounted for \$9.4 million and \$508 thousand was from miscellaneous revenues.

Non-Operating Revenues

Non-operating revenues comprising interest income, interest on leases, passenger facility charges (PFCs), operating and capital grants, and other miscellaneous sources accounted for 60.5% of the Authority's total revenues, equating to \$50.7 million. The bulk of these non-operating revenues included \$24.2 million of operating grants from the US Government (which includes \$16.5 million in funds received under the American Rescue Plan) and \$23.5 million provided by the federal government, notably the FAA. PFC collections amounted to \$1.3 million. Interest income earned totaled \$819 thousand. Interest on leases recorded from the GASB No. 87 implementation amounted to \$132 thousand and operating grants from the Government of Guam totaled \$24 thousand.

Total Expenses (Operating, Depreciation and Amortization & Non-Operating)

For FY 2022, total expenses amounted to \$84.3 million. Operating expenses of \$39.2 million accounted for 46.5% of the Authority's total expenses, which included contractual services at \$19.0 million, personnel services at \$18.9 million, and \$1.3 million for materials and supplies. Depreciation and amortization amounted to \$31.2 million, equal to 37.1% of the Authority's total expenses. While \$13.8 million was recorded for non-operating expenses, accounting for 16.4% of the Authority's total expenses, and included \$9.4 million for interest expense and \$4.4 million for other miscellaneous expenses.

The Authority continued its proactive approach to maintain cost-cutting initiatives and strict protocols to ensure the procurement of only essential supplies and services. Moreover, the Authority reduced other costs by consolidating airport operations and restricting the use of passenger gates and other facilities as it strived towards recovery.

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Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Full Time Employees

As of September 30, 2022, the Authority employed 203 full-time employees (FTEs).

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

The Authority's cost per enplaned passenger (CPE) for FY 2022 was \$25.05. Enplaned passengers are passengers departing Guam or in transit through Guam. The CPE is a hybrid rate-setting system that employs elements of both residual-cost and compensatory-cost approaches and provides the Authority the flexibility to offset aeronautical costs with non-aeronautical revenues.

The Authority's Debt Service Coverage (DSC) ratio requirement stipulated in 2019, 2021, and 2022 bond covenants must equal 1.25x. For FY 2022, the DSC was recorded at 1.76x, providing sufficient coverage beyond the 1.25x DSC ratio.

The CPE and DSC results in FY 2022 may be attributed to the Authority's diligence in refunding/refinancing several of its general revenue bonds in FY 2019 (\$34 million) and FY 2021 (\$143 million), along with the financial assistance received from the federal government, the Government of Guam, and the funds received through the American Rescue Plan. These revenue initiatives gave the flexibility the Authority needed to ensure compliance with its bond covenants.

Airline Signatory Rates & Charges

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

Majority of the airlines operating at the Authority for FY 2022 are signatory airlines. To reiterate the importance of such agreements, signatory airlines historically comprise over 95% of passenger activity for the Authority and include the following carriers: United Airlines, Japan Airlines, China Airlines, Korean Air, Philippine Airlines, Jin Air, Jeju Air, Air Busan, Air Seoul, and T'Way Air.

All-Cargo operators include Asia Pacific Airlines, Federal Express, and UPS. Star Marianas, Arctic Circle, and Marianas Southern Airways also provide services to the CNMI from Guam utilizing aircraft weighing 12,500 pounds or lower on a scheduled and charter basis for passenger/cargo services.

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Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

A summary of revenues for the years ended September 30, 2022 and 2021 and the amount and percentage of change in relation to prior year is provided below.

Revenues

	<u>2022</u>	<u>2022</u> <u>% of Total</u>	<u>2021</u>	<u>2021</u> <u>% of Total</u>	<u>% Increase</u> <u>(Decrease)</u>
Arrival facilities	\$ 1,432,759	1.7%	\$ 475,611	0.7%	201.2%
Departure facilities	2,304,411	2.7%	791,830	1.2%	191.0%
Passenger loading bridge	1,402,017	1.7%	1,309,725	1.9%	7.0%
Landing fees	2,797,423	3.3%	799,651	1.2%	249.8%
Common use ticket counter fees	183,371	0.2%	8,018	0.0%	2187.0%
Immigration	455,453	0.5%	87,865	0.1%	418.4%
Public apron	1,024,902	1.2%	1,096,053	1.6%	-6.5%
Utility recovery charge and other fees	700,154	0.8%	477,492	0.7%	46.6%
Fuel flowage fee	242,143	0.3%	261,792	0.4%	-7.5%
Total facilities and use charges	10,542,633	12.6%	5,308,037	7.7%	98.6%
General merchandise	10,258,928	12.2%	4,421,204	6.4%	132.0%
Ground transportation	407,880	0.5%	(5,287)	0.0%	-7814.8%
Car rental	856,535	1.0%	359,631	0.5%	138.2%
Food and beverage	439,742	0.5%	115,867	0.2%	279.5%
In-flight catering	393,306	0.5%	263,497	0.4%	49.3%
Other	380,939	0.5%	355,030	0.5%	7.3%
Total concession fees	12,737,330	15.2%	5,509,942	8.0%	131.2%
Operating space - airline	1,904,161	2.3%	2,789,602	4.1%	-31.7%
Operating space - non airline	3,634,117	4.3%	4,060,166	5.9%	-10.5%
Other	3,863,862	4.6%	3,696,941	5.4%	4.5%
Total rental income	9,402,140	11.2%	10,546,709	15.3%	-10.9%
Miscellaneous	508,505	0.6%	1,808,568	2.6%	-71.9%
Total operating	33,190,608	39.5%	23,173,256	33.7%	43.2%
Interest income	818,954	1.0%	762,933	1.1%	7.3%
Interest on leases	131,998	0.2%	-	0.0%	100.0%
Passenger facility charge	1,349,348	1.6%	270,964	0.4%	398.0%
Operating grants from the US Government	24,182,086	28.8%	20,428,336	29.7%	18.4%
Operating grants from the Government of Guam	24,050	0.0%	14,271	0.0%	68.5%
Capital grants from the US Government	23,498,637	28.0%	22,340,926	32.5%	5.2%
Other	741,413	0.9%	1,816,455	2.6%	-59.2%
Total non-operating	50,746,486	60.5%	45,633,885	66.3%	11.2%
Total revenues	\$ 83,937,094	100.0%	\$ 68,807,141	100.0%	22.0%

* FY 2022 includes effects of GASB No. 87 Implementation.

Antonio B. Won Pat International Airport Authority, Guam
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Management's Discussion and Analysis, continued

D. Financial Operation Highlights, continued

Expenses

A summary of expenses for the years ended September 30, 2022 and 2021 and the amount and percentage of change in relation to prior year is as follows:

	<u>2022</u>	<u>2022</u> <u>% of Total</u>	<u>2021</u>	<u>2021</u> <u>% of Total</u>	<u>% Increase</u> <u>(Decrease)</u>
Operating expenses:					
Contractual services	\$ 18,967,112	22.5%	\$ 14,857,167	22.1%	27.7%
Personnel services	18,907,278	22.4%	18,886,492	28.1%	0.1%
Materials and supplies	<u>1,300,131</u>	1.5%	<u>799,951</u>	1.2%	62.5%
Total operating expenses	<u>39,174,521</u>	46.5%	<u>34,543,610</u>	51.4%	13.4%
Depreciation and amortization	<u>31,247,534</u>	37.1%	<u>29,198,113</u>	43.4%	7.0%
Non-operating:					
Interest expense	9,443,734	11.2%	(756,281)	-1.1%	-1348.7%
Other	<u>4,393,256</u>	5.2%	<u>4,237,712</u>	6.3%	3.7%
Total non-operating expenses	<u>13,836,990</u>	16.4%	<u>3,481,431</u>	5.2%	297.5%
Total expenses	<u>\$ 84,259,045</u>	100.0%	<u>\$ 67,223,154</u>	100.0%	25.3%
Total full time employees	203		199		2.0%

** FY 2022 includes effects of GASB No. 87 Implementation.*

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, 2022 and 2021 and the amount and percentage of change in relation to prior year is as follows:

	<u>2022</u>	<u>2022</u> <u>% of Total</u>	<u>2021</u>	<u>2021</u> <u>% of Total</u>	
Airport revenues:					
Signatory airline rentals and fees	\$ 10,231,709	18.7%	\$ 6,158,049	13.8%	
Revenue from sources other than signatory airline rentals and fees*	18,059,373	33.1%	17,015,209	38.2%	
Passenger facility charge revenue	1,349,349	2.5%	270,964	0.6%	
Operating grants	24,206,135	44.3%	20,442,607	45.9%	
Interest income not related to construction	<u>755,981</u>	1.4%	<u>618,953</u>	1.4%	
Total airport revenues	<u>\$ 54,602,547</u>	100.0%	<u>\$ 44,505,782</u>	100.0%	
					<u>% Change</u>
Signatory airline enplaned passengers	408,439	227.1%	124,856		
Signatory airline cost per enplaned passenger	\$25.05	-49.2%	\$49.32		

*FY22 revenues net GASB 87 bookkeeping entries

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Management's Discussion and Analysis, continued

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

Debt Service Coverage

Under the Bond Indenture for the issuance of the 2013, 2019, and 2021 General Revenue Bonds, the Authority is required to maintain minimum debt service coverage of 1.25x in relation to net revenues versus annual debt service. A summary of the annual debt service coverage for the years ended September 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Airport Revenues*	\$ 54,602,547	\$ 44,505,782
Less: Operation and Maintenance Expenses**	<u>(42,438,342)</u>	<u>(35,767,648)</u>
Net Revenues	12,164,205	8,738,134
Plus: Other Available Moneys	<u>2,018,555</u>	<u>1,729,676</u>
Net Revenues and Other Available Moneys	<u>\$ 14,182,760</u>	<u>\$ 10,467,810</u>

Rate Covenant

Net Revenues and Other Available Moneys	\$ 14,182,760	\$ 10,467,810
Total Annual Debt Service	\$ 8,074,221	\$ 6,918,703
Annual Debt Service Coverage	1.76	1.51
Debt service coverage requirement	1.25	1.25

*FY22 revenues net of GASB 87 bookkeeping entries

**O&M expenses net of Pension & OPEB bookkeeping entries

F. Outlook for FY 2023

The lifting of COVID-19 era travel restrictions in FY 2022 has led to significantly improved enplaned passenger levels. Through the first three months of FY 2023 (October through December 2022), passenger movements equaled 363,045, reflecting a 41.6% recovery in comparison to the same months prior to the COVID-19 pandemic in FY 2019. Passenger enplanements (departure and transit passengers) accounted for 53.8% of the total passenger movements. Based on signatory airline enplanement forecasts, the Authority anticipates receiving 1.02 million enplaned passengers in FY 2023.

While not fully recovered to pre-pandemic levels, the Authority has seen an influx in passenger activity, mainly from South Korea, one of Guam's primary tourist markets, which opened to outbound and international inbound travel without quarantine restrictions for fully vaccinated travelers since April 2022. Moreover, they have been very progressive in easing restrictions such as mandatory quarantine measures since July 2022 and lifted PCR testing requirements upon arrival in October 2022. Furthermore, aside from lifting health measures, South Korea's Transport Ministry lifted restrictions on the operation of international flights and expanded the number

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Management's Discussion and Analysis, continued

F. Outlook for FY 2023, continued

of outbound routes to get back to pre-pandemic status in June 2022. Such measures prompted Korean carriers to resume services to Guam, which is the highest inbound seat capacity to the island. Japan, another of Guam's primary source markets, is expected to continue to recover with the easing of restrictions for both inbound and outbound travelers. United Airlines increased its Narita frequencies in June 2022, resumed its direct Osaka service in July 2022 and re-introduced Nagoya and Fukuoka services in October 2022. Korean low-cost carrier, Jeju Air, also introduced direct Narita service in January 2023 and other Korean low-cost carriers have indicated plans to utilize their 5th freedom rights with direct services from Japan, as they had operated pre-pandemic. The increase in Japan outbound seat capacity to Guam and high presence of the Guam product in travel agencies, supports the optimism of Guam's return as a preferred destination for the Japan travel market and return to pre-pandemic visitor numbers by the end of FY 2023.

Capital Improvements

The completion of the International Arrivals Corridor and the expansion of the TSA Security Screening Checkpoint from five lanes to seven has increased throughput capacity of an additional 300 passengers per hour. The Authority is looking to install a new roofing system to provide more energy efficiency and mitigate some of the damaged areas and leaks caused by Guam's harsh tropical weather. The update to the Authority's master plan will identify other ways to optimize facilities such as a new ticketing lobby configuration, an expanded security queuing area, more airport concessions and amenities, and upgrades to gates and hold rooms.

Looking toward air cargo, the Authority is exploring opportunities to create a bonded warehouse facility, an agricultural inspection and fumigation facility, and opportunities for a transshipment hub with the establishment of a TSA-certified cargo screening program. The designs for the air cargo apron and fuel system extension to provide direct access for a minimum of two all-cargo freighters to the Integrated Air Cargo Facility are also being pursued. The master plan process continues and will help to identify initiatives for air cargo improvement and other opportunities.

Other CIP projects that are underway or completed include the construction of a new state-of-the-art Aircraft Rescue Fire Fighting station that has optimized and enhanced the response time for ARFF units to any emergencies on or around the Airport. The rehabilitation and reconstruction efforts on the Authority's primary 12,000 foot runway is near complete. The Authority is assessing its IT and financial management infrastructure. And it will be proceeding with terminal aprons and taxiway rehabilitation in the coming months. The Authority is currently in the process of undertaking a Part 150 Noise Compatibility Study to ensure it identifies compatible land uses and minimizes any noise impacts from airport operations.

The Authority will continue to initiate only capital projects federally funded or essential to the Airport primary functions and increased efficiencies.

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Management's Discussion and Analysis, continued

F. Outlook for FY 2023, continued

Airport Circulation and Roadway Improvements

The Authority is working with other government agencies, notably DPW, to proceed with roadway improvements adjacent to airport property that will increase capacity and traffic circulation. These improvements include Phase II of the Tiyan Parkway which is a 1.5-mile roadway system that serves over 15,000 motorists daily. Another roadway project is the expansion of Route 10A fronting the airport which is a 2-mile stretch of road that connects Route 1 Marine Corps Drive and Route 16 Army Drive. The expansion of Mariner Avenue on the south side of the Airport Property is another roadway improvement that the Authority supports which would minimize the heavy congestion experienced at the tri-intersection of Route 8, 10, and 16.

Sustainable Development

The Authority will continue its efforts to align itself with the net-zero carbon goals that the entire aviation industry including ACI, IATA, and ICAO have committed to achieving. The Authority plans to apply to the ACI Airport Carbon Accreditation (ACA) program which is the only institutionally endorsed, global carbon management certification program for airports that independently assesses and recognizes the efforts of airports to manage and reduce their carbon emissions through six (6) levels of certification. Additionally, the Authority will continue to pursue federal government grant programs such as the ZEV Program, and other actions and projects and programs are expected to be planned and undertaken throughout the next several fiscal years.

Revenue Diversification

The Authority continues to find ways to diversify and enhance its revenue streams to provide for increased financial stability with a strong framework to drive revenues up, make funds available for continued capital improvements, and reduce airline costs. Revenue diversification helps reduce business risks during economic downturns and provide a source of income for operations and infrastructure improvements. More importantly, it helps attract new business interests and broaden the tenant mix at the airport.

The Authority has over twenty-one acres of raw land available and are looking for partners to develop these properties. We are working to make our lease terms more flexible and increasing term limits from five years to thirty years or longer to ensure a suitable time frame to realize a return on investment for our partners.

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Management's Discussion and Analysis, continued

F. Outlook for FY 2023, continued

Financial Outlook

The Authority's financial outlook is expected to be significantly improved in FY 2023 as compared to the prior two fiscal years. Total Operating Revenues are forecasted to increase from \$57.4 million in Fiscal Year 2022 to \$65.4 million in Fiscal Year 2023. Approximately \$10 million in federal grants are anticipated to be received from the FAA through the Airport Improvement Program entitlement funding and the Bipartisan Infrastructure Law funding passed in 2021. The Authority will continue to look for ways to reassess, diversify, and pursue revenue streams to reduce airport operating costs and encourage continued air service development through incentives for existing or new markets. Moreover, its Board of Directors and Management team will continue to exercise their fiduciary responsibilities to ensure cost containment measures are adhered to without compromising airport safety and security.

Operation & Maintenance (O&M) Expenditures

Operating and Maintenance (O&M) expenditures in FY 2023 are projected to be higher as compared to FY 2022 due largely to the significant recovery of passenger traffic and the associated need for increased contractual services at the Airport. Additionally, an increase in personnel services is expected in FY 2023 with the full-year law enforcement officer pay adjustments that began in FY 2022 as well as ARFF fire fighter personnel commencing 120-hour pay periods to augment and improve operations. Due to the increased power rates, the Authority expects that contractual services will reflect an additional increase, year-over-year. Maintaining airport operations while providing a safe and secure traveling environment is paramount to the Authority's mission and mandate, as a licensed FAR Part 139 airport.

Passenger Enplanement Cost & Debt Service Coverage (DSC)

Cost Per Enplaned Passenger is expected to be lower in FY 2023 as compared to FY 2022 with Debt Service Coverage (DSC) well above the 1.25x requirement of the Authority's bond indentures. This is due to the Authority's successful refunding/restructuring of its General Revenue Bonds in FY 2019 (\$34 million), FY 2021 (\$143 million), and FY 2023 (\$47 million) and the Authority's ability to manage the recovery of travel and the increases in costs to provide services. The continued reduced annual bond payments will increase the Authority's debt service coverage and ability to meet its bond covenants in FY 2023.

Credit Rating Outlook Updated

In October 2022, the Authority started off the fiscal year with credit rating agency Standard and Poor's (S&P's) updating the rating outlook of the Authority's General Revenue Bonds from "Negative" to "Stable." The revised outlook was due in large part to the continued lifting of travel restrictions in Guam's source markets leading to improved enplaned passenger levels, especially after the lifting of the U.S.'s travel restrictions.

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Management's Discussion and Analysis, continued

F. Outlook for FY 2023, continued

Credit Rating Outlook Updated, continued

The Authority also completed a similar review of its credit rating by Moody's Investor Services (Moody's) in FY 2023. Its Baa2 rating was reaffirmed and the "Negative" outlook issued in July 2021 that was mainly due to the COVID-19 pandemic, was revised to "Stable" by Moody's. The improved outlook was a testament to the dedicated staff and management of the Authority, for their commitment to work cost effectively while maintaining a safe and secure travel environment throughout the pandemic. Moreover, the Authority continued to undertake key initiatives to ensure sustained enplanement growth as forecasted by its signatory airline partners, completion of projects under its capital improvement program, sustained liquidity levels, and reducing cost per enplanements, by restructuring its debt and reducing operational expenses, will result in sufficient debt service coverage.

Due to the expected temporary impacts of Typhoon Mawar on passenger traffic, both rating agencies re-engaged with the Authority with S&P revising its outlook back to "Negative" and Moody's placing the Authority's ratings under review. The Authority expects continued passenger traffic recovery to occur during the months following June 2023.

Airport Master Plan

The Authority manages Guam's only commercial airport which is part of a dynamic and turbulent aviation industry that has seen several changes over the past decade. The Authority's updated master plan will reflect current conditions and forecast airport activity accordingly. In addition, it will consider new environmental and other regulatory factors. And then plan for future facilities and compatible land uses to support projected aeronautical and non-aeronautical needs for long-term financial viability and sustainability. Key components include renovations to optimize our ticketing lobby configuration, an expanded security queuing area, upgrades to our gates and hold rooms, and enhanced airport concessions. Additionally, the Airport Layout Plan (ALP) will be updated and include the Authority's Capital Improvement Program to allow for strategic financial planning for the continued development of the island's only commercial airport.

Workforce Development

Within the next 3-5 years, 10-20% of the Authority's 200+ employees will be eligible for retirement, many of them in key essential positions. More importantly, the aviation industry is growing considerably. Considering the increase in operations, the magnitude of the workload and the myriad of responsibilities the aviation industry has on Guam, it is imperative to develop its core workforce to maintain the high standards and quality in the daily operations of Guam's only commercial airport.

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Management's Discussion and Analysis, continued

F. Outlook for FY 2023, continued

Workforce Development, continued

Workforce development and succession planning is an integral part of the Authority's strategic management process. It will connect to its long-term goals and objectives, help mitigate risk associated with turnover, and develop personnel to meet future organizational needs. Moreover, it will provide the Authority a strategically planned approach and framework for its workforce development and succession plan for the management of Guam's only commercial airport. The projected goals and objectives of the Workforce Development and Succession Planning study will include but is not limited to:

1. Determine pivotal positions.
2. Identify and prepare immediate backup to fill short-term vacancies in pivotal positions.
3. Develop viable internal candidates for future vacancies.
4. Project future staffing needs and competency requirements based on organizational goals and workforce trends and predictions.
5. Identify obsolete or declining functions.
6. Develop promising leaders.

The Authority plans to approve and implement pay adjustments for its employees to continue to remain competitive in the Guam market, preserve the ability to retain its current workforce, and improve its ability to attract and recruit the best and brightest that Guam and the region have to offer.

Conclusion

With more than \$2.3 billion in direct, indirect, or induced economic activity for our island community, the Authority is a key economic driver for Guam and the Micronesian region. As the Authority looks to rebuild our network and connections, it will continue to develop Guam's only commercial airport, managing the ongoing capital improvement projects, minimize operational disruptions and strive to maintain a superior level of airport services, safely, securely, efficiently, and effectively. This will ensure the Authority remains a regional leader in aviation and major player in the Asia/Pacific region.

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Statement of Net Position

September 30, 2022

Assets

Current assets:

Unrestricted assets:

Cash (<i>Note 3</i>)	\$ 932,365
Passenger facility charge cash (<i>Note 3</i>)	10,300
Accounts receivable, trade, net of allowance for doubtful accounts of \$886,640	7,654,249
Passenger facility charge receivables (<i>Note 3</i>)	331,423
Receivables from the United States Government	3,860,987
Lease receivable (<i>Notes 1 and 9</i>)	13,708,420
Inventory and other	<u>424,151</u>

Total unrestricted current assets 26,921,895

Restricted assets - Customs fees, receivable (*Note 12*) 966,439

Total current assets 27,888,334

Lease receivable, net (*Notes 1 and 9*) 7,836,887

General Revenue Bonds (*Note 7*)

Investments and cash with trustees, unrestricted	29,905,885
Investments and cash with trustees, restricted	<u>21,351,555</u>

51,257,440

Depreciable capital assets, net (*Notes 4 and 11*) 401,669,469

Non-depreciable capital assets (*Notes 4 and 11*) 99,534,354

Avigation easements (*Note 4*) 4,016,811

Deferred outflows of resources:

Deferred differences on refunding of 2019 and 2021 bonds (<i>Note 5</i>)	13,240,344
Pension (<i>Note 8</i>)	4,850,322
Other postemployment benefits (<i>Note 8</i>)	<u>15,098,596</u>

Total deferred outflows of resources 33,189,262

Total assets and deferred
outflows of resources 625,392,557

See accompanying notes.

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Statement of Net Position, continued

Liabilities

Current liabilities:

Payable from unrestricted assets:	
Accounts payable - trade	\$ 4,057,413
Accounts payable - construction	12,606,201
Other liabilities (Note 11)	4,367,073
Security deposits and unearned income	3,243,439
Current portion of annual leave (Note 10)	486,492
Current portion of long-term loan payable to bank (Notes 6 and 10)	1,490,973
Accrued interest on General Revenue Bonds	<u>4,036,111</u>
Total payable from unrestricted assets	<u>30,287,702</u>
Payable from restricted assets:	
Customs fees payable to Treasurer of Guam (Note 12)	<u>967,035</u>
Total payable from restricted assets	<u>967,035</u>
Total current liabilities	<u>31,254,737</u>

Non-current liabilities:

Payable from unrestricted assets:	
Accrued sick leave (Notes 8 and 10)	153,848
Long-term portion of annual leave (Note 10)	1,391,889
Long-term loan payable to bank (Notes 6 and 10)	587,012
Net pension liability (Notes 8 and 10)	28,748,328
Collective total other postemployment benefit liability (Notes 8 and 10)	50,781,242
Payable from restricted assets:	
Long-term bonds payable, less current installments:	
General Revenue Bonds (Notes 5 and 10)	<u>191,280,700</u>
Total non-current liabilities	<u>272,943,019</u>
Total liabilities	<u>304,197,756</u>

Deferred inflows of resources

Deferred differences on refunding of 2013 bonds (Note 5)	12,568
Pension (Note 8)	3,831,131
Other postemployment benefits (Note 8)	21,335,001
Lease revenue	<u>14,441,965</u>
Total deferred inflows of resources	<u>39,620,665</u>

Commitments and contingencies (Notes 5, 6, 9 and 11)

Net position

Net investment in capital assets	325,089,725
Restricted for:	
Capital projects (Notes 4 and 11)	21,351,555
Unrestricted	<u>(64,867,144)</u>
Total net position	<u>\$ 281,574,136</u>

See accompanying notes.

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

Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2022

Operating revenues (<i>Note 5</i>):	
Concession fees (<i>Notes 3 and 9</i>)	\$ 12,737,330
Facilities and systems usage charges (<i>Note 3</i>)	10,542,633
Rental income (<i>Note 9</i>)	9,402,140
Miscellaneous	<u>508,505</u>
Total operating revenues	<u>33,190,608</u>
Operating costs and expenses:	
Contractual services (<i>Notes 9 and 11</i>)	18,967,112
Personnel services	18,907,278
Materials and supplies	<u>1,300,131</u>
Total operating costs and expenses	<u>39,174,521</u>
Loss from operations before depreciation and amortization	(5,983,913)
Depreciation and amortization	(<u>31,247,534</u>)
Operating loss	(<u>37,231,447</u>)
Non-operating revenues (expenses):	
Grants from the United States Government	24,182,086
Passenger facility charge income	1,349,348
Interest income	818,954
Interest on leases	131,998
Grant from Government of Guam - Office of Highway Safety (OHS)	24,050
Other expenses, net	(3,651,843)
Interest expense	(<u>9,443,734</u>)
Total non-operating revenues, net	<u>13,410,859</u>
Loss before capital grants	(23,820,588)
Capital grants from the United States Government	<u>23,498,637</u>
Decrease in net position	(321,951)
Net position, beginning of year	<u>281,896,087</u>
Net position, end of year	<u>\$ <u>281,574,136</u></u>

See accompanying notes.

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

Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 21,643,085
Cash paid to suppliers for goods and services	(22,945,978)
Cash paid to employees	(20,716,291)
Cash received from fiduciary activities	2,579,359
Other operating cash receipts	<u>24,050</u>
Net cash used in operating activities	(<u>19,415,775</u>)
Cash flows from investing activities:	
Proceeds from sale of investments	15,156,920
Investment interest income	<u>944,410</u>
Cash provided by investing activities	<u>16,101,330</u>
Cash flows from noncapital financing activity:	
U.S. Government nonoperating grants	17,000,000
Cash flows from capital and related financing activities:	
Acquisition and construction of airport facilities and avigation easement	(41,519,881)
Principal payment on 2013 and 2019 General Revenue Bonds	
Interest paid on General Revenue Bonds	(6,098,733)
Principal payment on loan payable to bank	(1,401,095)
Interest paid on loan payable to bank	(166,408)
Passenger facility charge receipts	1,118,280
U.S. Government capital and operating grants	<u>33,830,648</u>
Net cash used in capital and related financing activities	(<u>14,237,189</u>)
Net decrease in cash	(551,634)
Cash at beginning of year	<u>1,494,299</u>
Cash at end of year	\$ <u><u>942,665</u></u>
Consisting of:	
Cash	\$ 932,365
Passenger facility charge cash	<u>10,300</u>
	\$ <u><u>942,665</u></u>

See accompanying notes.

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

Statement of Cash Flows, continued

Reconciliation of operating loss and other

expenses to net cash used in operating activities:

Operating loss	\$ (37,231,447)
Other and non-recurring expenses	(<u>3,627,793</u>)
	(<u>40,859,240</u>)

Adjustments to reconcile operating loss and other expenses to net cash used in operating activities:

Depreciation and amortization	31,247,534
Non-cash OPEB cost	1,637,823
Non-cash pension costs	1,790,262
Bad debt expense	522,640
Increase in assets:	
Accounts receivable	(3,303,663)
Lease receivable	(21,167,307)
Inventory and other	(266,153)
Increase (decrease) in liabilities:	
Accounts payable	788,916
Other current liabilities	(34,907)
Security deposits and unearned income	(127,919)
Annual leave	221,682
Sick leave	26,629
Collective total OPEB liability	(539,709)
Net pension liability	(3,794,328)
Deferred inflow of resources - lease revenue	<u>14,441,965</u>
Total adjustments	<u>21,443,465</u>
Net cash used in operating activities	\$ (<u><u>19,415,775</u></u>)

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

Notes to Financial Statements

Year ended September 30, 2022

1. Organization and Summary of Accounting Policies

Organization

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

Basis of Accounting

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

Net Position

Net position represents the residual of all other elements presented in the statement of net position and is presented in the following categories:

Net investment in capital assets

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

Restricted

Nonexpendable – Net position subject to externally imposed stipulations that require the Authority to maintain them permanently.

Expendable – Net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time.

All of the Authority’s restricted net position at September 30, 2022 is expendable.

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Net Position, continued

Unrestricted

The unrestricted component of net position is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Cash

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

Accounts Receivable

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

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

Inventory

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

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Bond Premium and Discount

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

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Lease receivable

Lease receivable represents the present value of lease payments expected to be received during the lease term. The Authority has adopted policies to assist in determining lease treatment in accordance with the requirements of GASB Statement No. 87, which include the following: (1) the maximum possible lease term is non-cancelable by both lessee and lessor and is more than 12 months and (2) the terms of the lease will include possible extension periods that are deemed to be reasonably certain given all available information, regarding the likelihood of renewal.

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.

Avigation Easements

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

Impairment of Capital Assets

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred.

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value.

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Compensated Absences

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

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service.
2. Three-fourths day (6 hours) for each full bi-weekly pay period in the case of employees with more than five (5) years of service but less than fifteen (15) years of service.
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

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

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

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Authority recognizes a net pension liability for the pension plan in which it participates, which represents the Authority's proportionate share of total pension liability (actuarially calculated) over the pension plan assets, measured as of the fiscal year end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Operating and Non-Operating Revenues and Expenses

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

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Other Post-Employment Benefits

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources until then. As required by GASB Statements No. 68, 73 and 75, the Authority reports deferred inflows of resources for pension-related and OPEB-related amounts: for its share of the difference between expected and actual earnings, for its share of the difference between its contributions and its proportionate share of contributions, and for the difference between expected and actual experience. The Authority also reports deferred inflows of resources for the difference between the carrying amount and the reacquisition price of refunded bonds.

Passenger Facility Charges

Passenger Facility Charges (PFC) generate income to be expended by the Authority for eligible projects and the payment of debt service on the General Revenue Bonds as determined by applicable federal legislation. PFC income is recorded as non-operating income in the statements of revenues, expenses and changes in net position. Air carriers collect PFC's from passengers on behalf of the Authority at the time of air travel ticket issuance. The air carriers are responsible for all PFC funds from the time of collection to remittance to the Authority. In addition, the air carriers must provide quarterly reports to the Authority showing the total amounts of PFC revenues collected and refunded, as well as any amounts withheld by the air carrier as collection compensation. The completeness of the PFC receipts reflected in the quarterly schedule is the responsibility of the air carrier.

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Environmental Costs

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, liabilities for future remediation and monitoring costs are recorded when environmental assessments and/or remedial and monitoring efforts are probable and the costs can be reasonably estimated. These liabilities are not reduced by possible recoveries from third parties, and projected cash expenditures are not discounted.

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

Risk Management

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 89 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 did not have an effect on beginning net position. At October 1, 2021, the Authority recorded lease receivable and related deferred inflow of resources of \$24,856,912 for its lease agreements as a lessor.

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The adoption of GASB Statement No. 89 of this statement did not have a material effect on the Authority's financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement enhances comparability in the application of accounting and financial reporting requirements and improves the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 did not have an effect on the Authority's financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address the accounting and financial reporting effects that result from the replacement of IBORs with other reference rates in order to preserve the reliability, consistency, and comparability of reported information. The adoption of GASB Statement No. 93 did not have an effect on the Authority's financial statements.

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans- an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (a) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The adoption of GASB Statement No. 97 did not have an effect on the Authority's financial statements.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The adoption of GASB Statement No. 98 did not have an effect on the Authority's financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This statement provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:

- Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions, as amended*. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

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

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended*, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit debt obligations*. The primary objectives of this statement are to provide a single method reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.

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

Notes to Financial Statements, continued

Organization and Summary of Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Guidance is effective for fiscal year ending September 30, 2023.
- Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Guidance is effective for fiscal year ending September 30, 2023.
- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issues Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

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

Notes to Financial Statements, continued

Organization and Summary of Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal years ending September 30, 2025.

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

2. Subsequent Events

The Authority has evaluated subsequent events through August 24, 2023, which is also the date the financial statements were available to be issued.

On May 24, 2023, Category 4 Typhoon Mawar made a direct passage over Guam having caused damage to the island and the Authority. Even with the associated damages from the typhoon, the Authority became fully operational shortly after the typhoon's passage. The Authority continues to perform its damage assessment processes for insurance, Federal Emergency Management Agency (FEMA), and FAA purposes for potential funding to cover eligible items.

3. Deposit Risk and Major Customers

The Authority maintains its cash in bank accounts, which at times may exceed federal depository insurance limits. At September 30, 2022, \$286,841 out of the Authority's bank deposits totaling \$1,024,441 is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

A primary concessionaire accounted for 21% of total operating revenues for the year ended September 30, 2022. Receivables from the primary concessionaire totaled \$14,728,830 at September 30, 2022.

For the year ended September 30, 2022, approximately 18% of the Authority's total operating revenues, including passenger facility charge income, were derived from one airline customer. At September 30, 2022, the accounts receivable from this airline customer totaled \$1,920,389.

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.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

4. Airport Facilities

A summary of changes in capital assets for the year ended September 30, 2022 is as follows:

	Beginning Balance <u>October 1, 2021</u>	<u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2022</u>
Depreciable capital assets:				
Terminal building	\$567,134,777	\$ 49,679	\$ 34,283,426	\$601,467,882
Airfield area	172,633,680	---	28,566,194	201,199,874
Other buildings	121,417,419	78,386	---	121,495,805
Apron area	28,632,976	---	---	28,632,976
Terminal area	24,876,119	---	---	24,876,119
Support facilities	<u>10,427,185</u>	<u>---</u>	<u>---</u>	<u>10,427,185</u>
Total capital assets depreciated	925,122,156	128,065	62,849,620	988,099,841
Less accumulated depreciation	<u>(556,459,018)</u>	<u>(29,971,354)</u>	<u>---</u>	<u>(586,430,372)</u>
	<u>\$368,663,138</u>	<u>\$(29,843,289)</u>	<u>\$ 62,849,620</u>	<u>\$401,669,469</u>
Non-depreciable capital assets:				
Land	\$ 61,832,623	\$ ---	\$ ---	\$ 61,832,623
Construction-in-progress	<u>59,159,534</u>	<u>41,391,817</u>	<u>(62,849,620)</u>	<u>37,701,731</u>
	<u>\$120,992,157</u>	<u>\$ 41,391,817</u>	<u>\$(62,849,620)</u>	<u>\$ 99,534,354</u>

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, 2022 included \$1,089,285 of costs associated with the residential sound insulation program. At September 30, 2022, the Authority's avigation easements (net of amortization) amounted to \$4,016,811 and are shown as avigation easements in the accompanying statement of net position.

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 statement 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.

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.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

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 statement of net position. In fiscal year 2001, the Navy paid the Authority \$10,000,000 (see Note 11) and the Authority and the Government of Guam assumed the responsibility for the completion of certain environmental response actions on the property.

5. Long-Term Revenue Bonds Payable

Long-term revenue bonds payable at September 30, 2022 consist of the following:

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 \$1,985,000 due in October 2028	\$ 43,500,000
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General revenue bonds, Series 2019 (original issue of \$37,045,000):

Varying interest rates (3% - 5%) payable semiannually in October and April, principal payment of \$3,900,000 due in October 2024	3,900,000
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General revenue bonds, Series 2021 (original issue of \$143,430,000):

Varying interest rates (2.5% - 4.5%) payable semiannually in October and April, principal payments due in varying annual installments with \$10,700,000 due in October 2025	<u>143,430,000</u>
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Total	190,830,000
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Add net unamortized premium on bonds	<u>450,700</u>
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	<u>\$191,280,700</u>
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Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable, continued

The refunding resulted in a credit difference on refunding of \$3,008,461 representing the difference between the reacquisition price and carrying amount of the 2003 bonds. The Authority netted the \$2,422,781 unamortized difference from prior refunding against the \$3,008,461 difference in current refunding, and the resulting net credit of \$585,680 is to be deferred and amortized over the ten year original amortization period remaining from the 2003 bonds. As of September 30, 2022, the unamortized balance of the difference in refunding totaled \$12,568, as presented in the accompanying statement of net position.

2019 Bonds

On November 1, 2019, the Authority issued \$37,045,000 General Revenue Bonds (collectively, the “2019 Bonds”) as follows:

- 2019 Series A (AMT) \$ 18,645,000
- 2019 Series B (Taxable) 18,400,000
- \$37,045,000

The 2019 Bonds were obtained for the advanced refunding of the Authority’s 2013 Series C bonds with maturities in FY2021 through FY2024.

The aggregate purchase price was \$38,558,876 (the purchase price); representing the principal amount of the 2019 Bonds, plus a net original issue premium of \$1,951,243 and less underwriters’ discount of \$437,367. Interest on the 2019 Bonds will be payable on April 1 and October 1 of each year.

The 2019 Bonds bear interest at rates from 3% to 5% and mature on October 1, 2023 for the 2019 Series A (AMT) and on October 1, 2025 for the 2019 Series B (Taxable).

The 2019 Bonds are subject to redemption prior to maturity date.

The refunding resulted in a debit difference on refunding of \$690,098 representing the difference between the reacquisition price and carrying amount of the 2013 bonds. As of September 30, 2022, the unamortized balance of the difference in refunding totaled \$287,439, and is included as a component of the deferred differences on refunding of 2019 and 2021 bonds in the accompanying statement of net position.

2021 Bonds

On August 17, 2021, the Authority issued \$143,430,000 General Revenue Bonds (the “2021 Series A Bonds”) which were obtained for the advanced refunding of the Authority’s 2013 Bonds and 2019 Bonds with maturities in FY2022 through FY2044 and in FY2022 through FY2026, respectively.

The aggregate purchase price was \$143,430,000 (the purchase price); representing the principal amount of the 2021 Series A Bonds and less underwriters’ discount of \$1,238,204. Interest on the 2021 Series A Bonds will be payable on April 1 and October 1 of each year.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

5. Long-Term Revenue Bonds Payable, continued

The 2021 Series A Bonds bear interest at rates from 2.5% to 4.5% and mature on October 1, 2031 for the serial bonds and on October 1, 2036 and October 1, 2043 for the term bonds.

The 2021 Bonds are subject to redemption prior to maturity date.

The refunding resulted in a debit difference on refunding of \$14,156,010 representing the difference between the reacquisition price and carrying amount of the 2013 and 2019. As of September 30, 2022, the unamortized balance of the difference in refunding totaled \$12,952,905 and is included as a component of the deferred differences on refunding of 2019 and 2021 bonds in the accompanying 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 a financial guaranty insurance policy, guaranteeing the scheduled payment of the principal and interest on the Bonds when due. Neither the payment of the principal on the bonds, nor any interest thereon, is a debt, liability or obligation of the Government of Guam.

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

6. Long-Term Loan Payable to Bank

Long-term loan payable to bank at September 30, 2022 consists of the following:

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	\$2,077,985
Less current installments	<u>1,490,973</u>
	<u>\$ 587,012</u>

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

Notes to Financial Statements, continued

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.

Future maturities of the long-term loan payable to Bank are as follows:

Year ending September 30.

2023		\$1,490,973
2024		<u>587,012</u>
		<u>\$2,077,985</u>

7. Investments and Cash with Trustees

The aforementioned 2021, 2019 and 2013 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, 2022, investments and cash held by the trustees, in trust for the Authority, in these funds and accounts are as follows:

Operations and Maintenance Reserve Fund	\$12,030,887
Risk and Loss Management Reserve Fund	5,668,733
Capital Improvement Fund	4,482,746
General Revenue Fund	4,437,145
Federal Grant Fund	2,214,906
Operations and Maintenance Fund	<u>1,071,468</u>
Total Unrestricted	<u>29,905,885</u>
Bond Reserve Fund	16,308,958
Debt Service Fund	4,042,177
Renewal and Replacement Fund	1,000,249
Construction Fund	<u>171</u>
Total Restricted	<u>21,351,555</u>
	<u>\$51,257,440</u>

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

Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

At September 30, 2022, investments and cash held by trustees are comprised of the following:

Investments	\$42,570,960
Cash	<u>8,686,480</u>
	<u>\$51,257,440</u>

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, BG Investment & Insurance and Coast 360 Federal Credit Union manage the Federal Fund accounts investing in U.S. Treasury Securities, U.S. government – sponsored enterprises, Domestic Corporate Bonds, Money Market Funds and Certificate of Deposits insured by the Federal Deposit Insurance Corporation. The U.S. Treasury Securities are low risk investments as they are guaranteed by the full faith and credit of the U.S. government. While U.S. government – sponsored enterprises are not guaranteed, they are backed by the U.S. government and are recognized as low risk investments as well. In addition, certain funds held with the Bank of Guam-Trustee are invested in Government Obligations Funds through Federated Investments. Funds with co-trustee, U.S. Bank, are invested in First American Treasury Obligations Fund. All investment securities are within the requirements of the 2021, 2019 and 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, 2022.

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

Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

Investments Measured at Fair Value

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The following tables set forth by fair value hierarchy level the Authority's assets carried at fair value at September 30, 2022:

		Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
U.S. Treasury securities	\$ 181,068	\$ 181,068	\$ ---	\$ ---
Exchange traded products (ETP) - Fidelity Investments	5,637,525	5,637,525	---	---
Corporate bonds	1,297,772	---	1,297,772	---
Money market funds:				
Fidelity Investments	21,132,426	21,132,426	---	---
US Bank, NA	2,323,315	2,323,315	---	---
Federal Farm Credit Bank (FFCB)	444,043	---	444,043	---
Federal Home Loan Mortgage Corporation (FHLMC)	115,376	---	115,376	---
Total investments by fair value level	31,131,525	\$ 29,274,334	\$ 1,857,191	\$ ---
Investments measured at a cost based measure:				
Guaranteed Investment Contracts (GIC) -				
US Bank, NA	9,549,194			
Time certificates of deposit (TCD)	1,890,241			
	\$ 42,570,960			

The Authority's credit quality distribution for debt securities at September 30, 2022 is as follows:

	Standard & Poor's/Moody's Credit Rating		Amount
FHLMC	Aaa/AAA	\$	115,376
FFCB	Aaa/AAA		444,043
Corporate Bonds	Aaa/AAA		114,652
Corporate Bonds	Aa/AA		27,486
Corporate Bonds	A		821,881
Corporate Bonds	Baa/BBB		333,753
GIC	Unrated		9,549,194

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

7. Investments and Cash with Trustees, continued

At September 30, 2022, the Authority had the following investments and maturities:

Investment type	Total	Less than 1	1 - 5	6 - 10	More than 10
MMF	\$ 23,455,741	\$ 23,455,741	\$ ---	\$ ---	\$ ---
GIC	9,549,194	---	9,549,194	---	---
ETP	5,637,525	5,637,525	---	---	---
TCD	1,890,241	1,890,241	---	---	---
Corporate bonds	1,297,772	290,716	1,007,056	---	---
FFCB	444,043	---	444,043	---	---
U.S. Treasury securities	181,068	---	181,068	---	---
FHLMC	115,376	---	115,376	---	---
	<u>\$ 42,570,960</u>	<u>\$ 31,274,223</u>	<u>\$ 11,296,737</u>	<u>\$ ---</u>	<u>\$ ---</u>

8. Employee Benefits

General Pension Plan Descriptions

The Government of Guam Retirement Fund (GGRF or the Fund) administers the Government of Guam Defined Benefit (DB) Plan and the Defined Contribution Retirement System (DCRS) Plan. By statute, the Authority provides pension benefits for its employees through the GGRF.

Defined Benefit Plan (DB Plan)

The DB Plan is a single-employer plan. A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. The 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.

In accordance with Public Law 33-186, the Defined Benefit 1.75 Plan became effective January 1, 2018. Members of the DB 1.75 Plan also automatically participate in the GovGuam deferred compensation plan, pursuant to which employees are required to contribute 1% of base salary as a pre-tax mandatory contribution.

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

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

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

8. Employee Benefits, continued

General Pension Plan Descriptions, continued

Defined Benefit Plan (DB Plan), continued

The DB 1.75 Plan is open for participation by certain existing employees, new employees and reemployed employees who would otherwise participate in the DCRS and who make election on a voluntary basis to participate in the DB 1.75 plan by December 31, 2017.

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

The Authority's statutory contribution rate was 28.32% and employees are required to contribute 9.5% of their annual pay for the year ended September 30, 2022.

Benefits: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater.

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

Actuarial cost method:	Entry age normal
Valuation of assets:	3-year phase in of gain/losses relative to interest rate assumption.
Investment income:	7.0% per year
Total payroll growth:	2.75%
Salary increases:	Graduated based on service with the GovGuam ranging from 4.0% for service in excess of 15 years to 7.5% for service from zero to five years.
Disability:	1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and 75% for females.
Retirement age:	50% of probability of retirement at earliest age of eligibility for unreduced retirement benefits; 20% per year thereafter until age 75, 100% at age 75.
Return of contributions:	100% withdrawing before retirement with less than 20 years of service assumed to elect a return of contributions. All those who have previously withdrawn assumed to elect a return of contributions. Contributions earn 4.5% interest.
Mortality:	Based on the RP-2000 combined mortality table, set forward 3 years for males and 2 years for females.
Amortization method:	Level percentage of payroll, closed

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

8. Employee Benefits, continued

General Pension Plan Descriptions, continued

Defined Benefit Plan (DB Plan), continued

Discount Rate: The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the GGRF's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Nominal Return</u>	<u>Component Return</u>
U.S. Equities (large cap)	26%	7.44%	1.93%
U.S. Equities (small cap)	4%	9.23%	0.37%
Non-U.S. Equities	17%	9.28%	1.58%
Non-U.S. Equities (emerging markets)	3%	11.32%	0.34%
U.S. Fixed Income (aggregate)	22%	3.89%	0.86%
Risk Parity	8%	5.92%	0.47%
High Yield Bonds	8%	6.42%	0.51%
Global Real Estate (REITs)	2.5%	8.55%	0.21%
Global Equity	7%	8.20%	0.57%
Global Infrastructure	2.5%	7.58%	0.19%
Expected average return for one year			7.04%
Expected geometric mean (50 years)			6.36%

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

8. Employee Benefits, continued

General Pension Plan Descriptions, continued

Defined Benefit Plan (DB Plan), continued

The assumption used in the actuarial valuation (7.0%) is about equal to the average arithmetic return for one year, but higher than the expected geometric mean over 30 years. The geometric mean is lower than the arithmetic mean due to the expected volatility of investments. If the investments fail to achieve the assumed interest rate, future required contributions will increase.

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

Members of the DB Plan also receive ad hoc cost of living allowance and supplemental annuity benefits that are appropriated yearly by the Guam Legislature. Those benefits are deemed to be substantively automatic, requiring reporting under GASB Statement No. 73. The Ad Hoc COLA/SA Plan for DB Participants is a single-employer plan. A single actuarial valuation is performed annually covering all plan members. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the Ad Hoc COLA/SA Plan for DB Participants. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website - www.ggrf.com.

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

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

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

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

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

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

8. Employee Benefits, continued

General Pension Plan Descriptions, continued

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

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

Actuarial cost method:	Entry age normal
Total payroll growth:	2.75%
Salary increases:	Graduated based on service with the GovGuam ranging from 4.0% for service in excess of 15 years to 7.5% for service from zero to five years.
Disability:	1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and 75% for females.
Retirement age:	50% of probability of retirement at earliest age of eligibility for unreduced retirement benefits; 20% per year thereafter until age 75, 100% at age 75.
Mortality:	Based on the RP-2000 combined mortality table, set forward 3 years for males and 2 years for females.
Amortization method:	Level percentage of payroll, closed.

Discount Rate: The discount rate used to measure the Ad Hoc COLA/SA was a municipal bond rate of 2.26% for the year ended September 30, 2022. This rate was used as the benefits are not funded with the accumulation of assets; they have been funded historically through appropriations from the Government of Guam.

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

The DCRS is administered by the GGRF. Members of DCRS receive ad hoc cost of living allowance (COLA) that are appropriated yearly by the Guam Legislature. Those benefits are deemed to be substantively automatic, requiring reporting under GASB Statement No. 73. The Ad Hoc COLA Plan for DCRS Participants is a single-employer plan. A single actuarial valuation is performed annually covering all plan members. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the Ad Hoc COLA Plan for DCRS Participants. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website - www.ggrf.com.

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Notes to Financial Statements, continued

8. Employee Benefits, continued

General Pension Plan Descriptions, continued

Ad Hoc COLA Plan for DCRS Participant, continued

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

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

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

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

Actuarial cost method:	Entry age normal
Total payroll growth:	2.75%
Salary increases:	Graduated based on service with the GovGuam ranging from 4.0% for service in excess of 15 years to 7.5% for service from zero to five years.
Disability:	1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and 75% for females.
Retirement age:	5% per year from age 55 to 64, 10% per year from age 65 to 74, 100% at age 75.
Mortality:	Based on the RP-2000 combined mortality table, set forward 3 years for males and 2 years for females.
Amortization method:	Level percentage of payroll, closed.

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

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Notes to Financial Statements, continued

8. Employee Benefits, continued

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

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

Reporting Date:	September 30, 2022
Measurement Date:	September 30, 2021
Valuation Date:	September 30, 2020

Net pension liability as of September 30, 2022 for the aforementioned plans is as follows:

DB Plan	\$24,446,987
Ad hoc COLA/SA Plan for DB Participants	3,182,469
Ad hoc COLA Plan for DCRS Participants	<u>1,118,872</u>
	<u>\$28,748,328</u>

Proportionate share of net pension liability at September 30, 2022 for the aforementioned plans is as follows:

DB Plan	2.54%
Ad hoc COLA/SA Plan for DB Participants	1.03%
Ad hoc COLA Plan for DCRS Participants	1.59%

Pension expense for the year ended September 30, 2022 for the aforementioned Plans are as follows:

DB Plan	\$1,375,620
Ad hoc COLA/SA Plan for DB Participants	342,579
Ad hoc COLA Plan for DCRS Participants	<u>72,063</u>
	<u>\$1,790,262</u>

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Notes to Financial Statements, continued

8. Employee Benefits, continued

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

As of September 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	DB Plan		COLA/SA Plan for DB Participants		COLA Plan for DCRS Participants	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 39,239	\$(248,573)	\$ ---	\$(44,212)	\$ 123,045	\$(21,789)
Net difference between projected and actual earnings on pension plan investments	---	(2,953,181)	---	---	---	---
Authority contributions subsequent to the measurement date	3,841,957	---	240,310	---	44,000	---
Changes in assumption	---	---	86,718	(9,437)	227,260	(73,801)
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	<u>20,962</u>	<u>(175,085)</u>	<u>170,256</u>	<u>(13,627)</u>	<u>56,575</u>	<u>(291,426)</u>
	<u>\$ 3,902,158</u>	<u>\$(3,376,839)</u>	<u>\$ 497,284</u>	<u>\$(67,276)</u>	<u>\$ 450,880</u>	<u>\$(387,016)</u>

Deferred outflows of resources at September 30, 2022 resulting from the Authority's employer contributions for the following plans are as follows:

DB Plan	\$3,841,957
Ad hoc COLA/SA Plan for DB Participants	240,310
Ad hoc COLA Plan for DCRS Participants	<u>44,000</u>
	<u>\$4,126,267</u>

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

2023	\$(421,211)
2024	(560,492)
2025	(979,293)
2026	(1,175,611)
2027	12,230
Thereafter	<u>17,301</u>
	<u>\$(3,107,076)</u>

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

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Notes to Financial Statements, continued

8. Employee Benefits, continued

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

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

DB Plan

	1% Decrease <u>6.00%</u>	Current Discount Rate <u>7.00%</u>	1% Increase <u>8.00%</u>
Net pension liability	<u>\$30,867,530</u>	<u>\$24,446,987</u>	<u>\$16,494,938</u>

Ad Hoc COLA/SA for DB Participants

	1% Decrease <u>1.26%</u>	Current Discount Rate <u>2.26%</u>	1% Increase <u>3.26%</u>
Collective total pension liability	<u>\$3,482,878</u>	<u>\$3,182,469</u>	<u>\$2,907,932</u>

Ad Hoc COLA for DCRS Participants

	1% Decrease <u>1.26%</u>	Current Discount Rate <u>2.26%</u>	1% Increase <u>3.26%</u>
Collective total pension liability	<u>\$1,270,145</u>	<u>\$1,118,872</u>	<u>\$ 989,812</u>

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

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Notes to Financial Statements, continued

8. Employee Benefits, continued

DCRS

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

Statutory employer contributions into the DCRS for the year ended September 30, 2022 is determined using the same rates as the DB plan. Of the amount contributed by the employer, only 6.2% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

During the year ended September 30, 2022, contributions made and amounts accrued under the DCRS amounted to \$1,462,221.

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, 2022, the Authority has accrued an estimated liability of \$153,848. However, this amount is an estimate and actual payout could differ from those estimates.

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Notes to Financial Statements, continued

8. Employee Benefits, continued

Other Post-employment benefit (OPEB) Plan

OPEB Plan Description

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

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

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

Benefits: GovGuam provides postemployment medical, dental and life insurance benefits to GovGuam retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. GovGuam contributes a portion of the medical and dental premiums, based on a schedule of semi-monthly rates, and reimburses certain Medicare premiums to eligible retirees. Retirees may also pay a portion of the medical and dental insurance premiums, depending on the plan and coverage selected.

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Notes to Financial Statements, continued

8. Employee Benefits, continued

Other Post-employment benefit (OPEB) Plan, continued

OPEB Plan Description, continued

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

Inflation:	2.75%
Healthcare cost trend rate:	Non-Medicare and Medicare - 19% and 31%, respectively, for Year 1, 6% for Year 2-3 then reducing 0.25% annually to an ultimate rate of 4.25%. Part B 2.7% for Year 1 and 4.25% thereafter. Health care trend assumptions begin at current levels and grade down over a period of years to a lower level equal to some real rate plus inflation. The principal components of health trend are medical inflation, deductible erosion, cost shifting, utilization, technology, and catastrophic claims. The overall effect of these components are expected to decline year by year. Medical trend rates are applied to claims cost and retiree contributions, Medicare Part B and Medicare Part D reimbursements are assumed to be 4.25% per year.
Dental trend rates:	4.25% per year, based on a blend of historical retiree premium rate increases as well as observed U.S. national trends.
Healthy retiree mortality rates:	Head-count weighted PUB-2010 Table, set forward 4 years for males and 2 years for females, respectively, projected generationally using 50% of MP-2020.
Disabled retiree mortality rates:	PUB-2010 Disabled Retiree Amount Weighted mortality table set forward 4 years for males and 2 years for females, respectively, using 130% of the rates before age 80 and projected generationally from 2010 using 50% of mortality improvement scale MP-2020.

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Notes to Financial Statements, continued

8. Employee Benefits, continued

Other Post-employment benefit (OPEB) Plan, continued

OPEB Plan Description, continued

Discount Rate: The discount rate used to measure the total OPEB liability was 2.26% as of September 30, 2021. The projection of cash flows used to determine the discount rate assumed that contributions from GovGuam will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the 2.26% tax-exempt, high quality municipal bond rate as of September 30, 2021 was applied to all periods to determine the total OPEB liability.

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

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

Reporting Date:	September 30, 2022
Measurement Date:	September 30, 2021
Valuation Date:	September 30, 2020

Collective total OPEB liability as of September 30, 2022 is \$50,781,242.

Proportionate share of collective total OPEB liability at September 30, 2022 is 1.83%.

OPEB expense for the year ended September 30, 2022 is \$1,637,823

As of September 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 4,425,097	\$(2,697,407)
Authority contributions subsequent to the measurement date	529,407	---
Changes in assumptions	5,928,995	(7,140,064)
Authority contributions and proportionate share of contributions	<u>4,215,097</u>	<u>(11,497,530)</u>
	<u>\$ 15,098,596</u>	<u>\$(21,335,001)</u>

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Notes to Financial Statements, continued

8. Employee Benefits, continued

Other Post-employment benefit (OPEB) plan, continued

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

Deferred outflows of resources at September 30, 2022 resulting from the Authority's employer contributions totaled \$529,407.

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

2023	\$(2,069,169)
2024	(1,206,759)
2025	(1,954,930)
2026	(1,900,571)
2027	<u>365,617</u>
	<u>\$(6,765,812)</u>

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

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

	1% Decrease <u>1.26%</u>	Current Discount Rate <u>2.26%</u>	1% Increase <u>3.26%</u>
Total OPEB Liability	<u>\$58,392,280</u>	<u>\$50,781,242</u>	<u>\$42,081,465</u>

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

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Total OPEB Liability	<u>\$ 40,821,541</u>	<u>\$50,781,242</u>	<u>\$60,422,828</u>

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Notes to Financial Statements, continued

9. Leases

The Authority, as a lessor, recognizes a lease receivable and a deferred inflow of resources at the commencement of the lease term, with exceptions for certain regulated leases and short-term leases. As lessor, the asset underlying the lease is not derecognized. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods.

The Authority leases certain assets to various third parties. The assets leased include building facilities, land, office space, terminal space for concessions, rental car facilities, advertising, and others. Majority of the lease agreements are a fixed monthly fee and may contain annual or periodic escalation clauses. For some leases, the monthly fee is a percentage of gross revenue, which may vary each month. Additionally, some leases may have a minimum annual guarantee (MAG), that set a certain lease amount regardless of the lessor's sales. Lease terms vary from month-to-month to over 20 years. Majority of the leases have a term of less than 5 years.

Financial Relief Programs

The COVID-19 global pandemic continued to impact passenger traffic in FY 2022. As part of GIAA's economic initiatives to encourage the resumption of air traffic, the GIAA worked in collaboration with its airline partners and tenants and approved several financial relief programs throughout FY 2022. Beginning May 1, 2021 through September 30, 2021, the GIAA adopted the Airline Recovery Assistance and Incentivizing Service Program (RAISE) providing incentives to stimulate air passenger service demand from all destinations in the Asia-Pacific Region. The current RAISE Program, effective May 1, 2022 through September 30, 2022, offered a cumulative percentage discount of up to 25% of the operational rates for a minimum of one flight per week, per destination. It applied to all city destinations in the non-U.S., Asia-Pacific region with direct scheduled air service or scheduled on-demand air service to Guam. The discount is based on the Authority's published tariff rates and is limited to airfield use (landing) fee, loading bridge use, immigration inspection, arrival, and departure fees.

Financial relief was also provided for the period of October 1, 2021 to September 30, 2022 for concessionaires whose contract payment terms required the higher of Minimum Annual Guarantees (MAG) or percentage of sales. During the temporary relief period, MAG rents were waived. In lieu of MAG, these tenants were provided terms which instead required the greater of a percentage of gross sales or terminal building rent based on the space they occupied and assessed at the main terminal building rental rate.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

9. Leases, continued

Lotte Duty Free Guam, LLC (Lotte)

The Authority has a lease agreement with Lotte as the primary concessionaire for the airport terminal for a 10-year term. In accordance with the Lotte Agreement, rental income shall be the greater of (1) \$15,160,000 (the MAG) for the main and future retail space, and \$240,000 for the arrivals retail space plus 1% of other gross revenues, or (2) the sum of the on-site gross revenues multiplied by 30.1% for the main and future retail space, and 25% for the additional retail space. The MAG shall be paid monthly in advance in equal installments on the first day of the month. The lease agreement expired on July 20, 2023 and was extended for an additional term of three years which expires on July 20, 2026. During the extended term, Lotte covenants and agrees to pay the Authority the (1) annual concession fee amounting to \$2,640,000 which shall be paid annually in advance on July 21 of each year, and (2) per enplaned passenger fee which is based on the total number of enplaned passengers for the period of July 21, 2023 to July 20, 2026 on a cumulative basis and shall be paid in arrears on a monthly basis.

Mediation Term Sheet (MTS) and Addendum

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

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

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

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Notes to Financial Statements, continued

9. Leases, continued

Lotte Duty Free Guam, LLC (Lotte), continued

Mediation Term Sheet (MTS) and Addendum, continued

Under the MTS Addendum, the Authority agreed to waive the payment of Percentage Rent, if any, for the period of December 2018 through May 2019. The Authority and Lotte also agreed on a formula to calculate additional direct impacts (closure of space) as a result of the Third Floor Project, which would be deducted from Lotte's rent obligation in equal amounts for a 24-month period following completion of the construction or a lesser time period if construction is delayed. In November 2019, the Authority and Lotte agreed to total additional direct impacts in the amount of \$611,368 to be deducted from Lotte's rent obligation for a period of 24 months beginning December 2019 through November 2021.

Lease receivable due for the Lotte Agreement is as follows:

Year ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ <u>12,827,722</u>	\$ <u>18,645</u>	\$ <u>12,846,367</u>

Other Leases

The Authority has lease agreements with various other airport users and other ground lease agreements. The lease agreements with the rent-a-car companies, other concessions, and other land or building leases, that are currently under a month-to-month holdover period, were excluded from the future minimum payment schedule. Food and beverage concessions are based on percentage of sales and were also excluded.

Future minimum payments that are included in the measurement of the lease receivable as of September 30, 2022 are as follows:

Year ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 751,098	\$ 93,721	\$ 844,819
2024	487,896	86,866	574,762
2025	350,025	81,303	431,328
2026	332,029	76,282	408,311
2027	301,507	71,123	372,630
2028 - 2032	1,441,485	289,278	1,730,763
2033 - 2037	1,668,267	162,712	1,830,979
2038 - 2041	<u>1,182,131</u>	<u>37,930</u>	<u>1,220,061</u>
	<u>\$6,514,438</u>	<u>\$899,215</u>	<u>\$7,413,653</u>

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Notes to Financial Statements, continued

9. Leases, continued

Regulated Leases

In accordance with GASB Statement No. 87, Leases, the Authority does not recognize a lease receivable and deferred inflow of resources for regulated leases. Regulated leases are certain leases that are subject to external laws, regulations, or legal rulings. For example, the U.S. Department of Transportation and the Federal Aviation Administration (FAA) regulate aviation leases between airports, air carriers, and other aeronautical users. The Authority's regulated leases include airline lease agreements and related airline leases, as well as contracts with Fixed Based Operators (FBOs) and Specialized Aviation Service Operators (SASO), and a jet fuel farm.

Airline Leases

The Authority entered into new Signatory Airline Operating Agreements and Terminal Building Leases (the Airline Operating Agreements) with all Signatory Airlines serving the Airport, effective October 1, 2019. The Airline Lease Agreements for all signatory airlines have an initial term of five years and is set to expire on September 30, 2024. Guam law prohibits government agencies from entering into an agreement for the use of public real property for a term in excess of five years. However, if this law is amended, the Airline Operating Agreement allows for the extension of an additional five years.

Key provisions in the Airline Operating Agreement include compensatory rate making for the terminal building rental rates and residual rate making for the facilities and systems usage charges. The terminal building rate per square feet is calculated based on allocable costs to the terminal building for each fiscal year divided by the rentable space. Facilities and system usage charges are calculated by dividing the applicable fee requirement by the estimated number of Signatory Airline departing passengers or flights (depending on the fee) of the succeeding fiscal year as projected by the Authority. Any passenger or air cargo carrier that is a Non-Signatory Airline are charged a premium of 40% over the rates and charges applicable to Signatory Airlines.

By definition, the Airline Operating Agreement is considered a regulated lease and does not recognize a receivable and corresponding deferred inflow of resources. The Authority currently has Airline Operating Lease Agreements with 10 carriers. Due to the variable nature of the facilities and system usage charge revenues from year-to-year, expected future minimum payments are indeterminable. Future minimum lease income for the leased space under the Airline Operating Agreements is as follows:

Year ending <u>September 30.</u>	
2023	\$2,446,283
2024	<u>2,446,283</u>
	<u>\$4,892,566</u>

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

9. Leases, continued

Regulated Leases, continued

Pac Air Properties, LLC (Pac Air)

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

For the year ended September 30, 2022 the Authority accrued rental income totaling \$313,200 and is included as a component of rental income in the accompanying statements of revenues, expenses and changes in net position. At September 30, 2022, accrued rental receivable totaled \$248,400, and is shown as accounts receivable from tenant in the accompanying statement of net position.

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

<u>Year ending September 30,</u>	
2023	\$ 313,200
2024	315,900
2025	345,600
2026	345,600
2027	345,600
2028 - 2032	1,827,900
2033 - 2037	2,006,550
2038 - 2042	2,212,200
2043 - 2047	2,444,850
2048 - 2052	2,687,850
2053 - 2057	2,947,500
2058 - 2059	<u>1,169,550</u>
Total future minimum lease income	<u>\$16,962,300</u>

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Notes to Financial Statements, continued

9. Leases, continued

Regulated Leases, continued

Pac Air Properties, LLC (Pac Air), continued

The Authority has a lease-back agreement, expiring in 2025, with Pac Air to lease a total of 25,000 square feet of space in the completed facility on the leased premises. The Authority has an additional lease of 7,500 square feet of space that was terminated on January 31, 2023.

Rent expense for the year ended September 30, 2022 totaled \$955,500 is included under contractual services in the accompanying statement of revenues, expenses and changes in net position.

Future minimal rent expense arising from the Pac Air lease-back agreement is as follows:

Year ending <u>September 30,</u>	
2023	\$ 865,500
2024	820,500
2025	<u>820,500</u>
Total future minimum lease expense	<u>\$2,506,500</u>

The Authority has a sublease agreement with the Government of Guam's Customs and Quarantine Agency (GovGuam CQA) to lease the aforementioned 25,000 square feet of rental space for an annual rental of \$780,000. Rental income for the year ended September 30, 2022 totaled \$780,000 and is included under rental income in the accompanying statement of revenues, expenses and changes in net position.

Future minimum sublease income from GovGuam CQA is as follows:

Year ending <u>September 30,</u>	
2023	\$ 780,000
2024	780,000
2025	<u>780,000</u>
Total future minimum lease income	<u>\$2,340,000</u>

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Notes to Financial Statements, continued

9. Leases, continued

Other Regulated Leases

Expected future minimum lease payments from other regulated leases not listed above related to land and buildings for aeronautical purposes at September 30, 2022 are as follows:

Year ending <u>September 30,</u>	
2023	\$1,480,689
2024	1,488,921
2025	423,361
2026	238,149
2027	238,149
2028 - 2032	1,028,164
2033 - 2037	932,217
2038 - 2039	<u>279,115</u>
Total future minimum lease income	<u>\$6,108,765</u>

10. Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal year 2022 is as follows:

	Outstanding October 1, <u>2021</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, <u>2022</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued sick leave	\$ 180,477	\$ ---	\$ 26,629	\$ 153,848	\$ ---	\$ 153,848
Accrued annual leave	1,656,699	1,207,363	985,681	1,878,381	486,492	1,391,889
Loan payable to bank	3,479,080	---	1,401,095	2,077,985	1,490,973	587,012
Net pension liability	36,164,090	---	7,415,762	28,748,328	---	28,748,328
Collective total other postemployment benefit liability	45,366,213	5,415,029	---	50,781,242	---	50,781,242
General revenue bonds	<u>191,280,700</u>	<u>---</u>	<u>---</u>	<u>191,280,700</u>	<u>---</u>	<u>191,280,700</u>
	<u>\$278,127,259</u>	<u>\$6,622,392</u>	<u>\$9,829,167</u>	<u>\$274,920,484</u>	<u>\$1,977,465</u>	<u>\$272,942,019</u>

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

Notes to Financial Statements, continued

11. Commitments and Contingencies

Environmental Response Actions

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

The Authority's responsibilities under the Remedial Action are limited to groundwater sampling and testing as currently performed. In the near future, the ongoing sampling and testing requirements will be reduced or completely eliminated. A specific request to this effect is pending GEPA. The granular activated carbon (GAC) treatment provided under the Authority's new water system satisfies the GAC treatment component of future wells meeting the selected remedy. No further obligation of the Authority is required under the DD.

The long-term obligation to operate and maintain the facilities built under the remedial construction as well as the required sampling will be handled through a water system commercial agreement. As of September 30, 2014, the Authority estimated, based upon a weighted average probability of future cash outflows, that its pollution remediation obligations as called for under GASB No. 49 Accounting and Financial Reporting for Pollution Remediation Obligations totaled \$800,929. At September 30, 2022, future pollution remediation and monitoring costs totaling \$130,249 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. 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.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Commitments

The Authority has commitments totaling approximately \$13 million under several construction contracts at September 30, 2022.

In addition, the Authority has commitments under other various contracts totaling approximately \$10.1 million at September 30, 2022.

Insurance

The Authority has adopted a policy of self-insuring its facilities for earthquake and typhoon damage. The Authority also maintains deposit of \$1 million annually in the Renewal and Replacement Fund which will be combined with funds in the Risk and Loss Management Reserve Fund to cover damage in the event of a natural catastrophe. As of September 30, 2022, the balances in the Renewal and Replacement Fund and Risk and Loss Management Reserve Fund are \$1 million and \$5.8 million, respectively. The Authority has a catastrophic insurance policy with coverage up to \$5 million as a supplement to the self-insurance.

Government of Guam General Fund

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

Notwithstanding the requirements of 5 G.C.A. § 22421, the Authority is prohibited by its 2013 General Revenue Bond Indentures (2013 Indentures) and federal law from transferring any funds from its operating surplus to the General Fund. Any diversion of the Authority's revenues under any formula will place the Authority in breach of the 2013 Indentures and will jeopardize ongoing and future federal funding, possibly even subjecting the Authority to millions of dollars in federal civil penalties. Accordingly, the Authority cannot transfer any of its revenues to the General Fund as directed by 5 G.C.A. § 22421 and no liability has been recorded for this contingency as of September 30, 2022. This position has been supported by legal determinations, past and present.

During the year ended September 30, 2022, there was no substantive progress of discussions with the Executive and Legislative branches to repeal 5 GCA § 22421 or on the issue of the Government of Guam assessment.

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

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

Water System Infrastructure Upgrade

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

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

A new water system commercial agreement is being negotiated between the Authority and GWA to account for operational and maintenance omissions and deficiencies and to improve repair and replacement procedures. The new agreement is expected to be executed during 2023. Other matters include real estate issues that will allow GWA the ability to expand the capacity of the water reservoirs. The Authority expects to approve GWA's proposal expansion. Additional issues include GWA servicing of the former Naval officers housing occupants and the disposition of aged water lines within the airfield. Personnel changes for both parties as well as restrictions imposed from the pandemic have delayed negotiations.

Litigation

The Authority is involved in certain litigation inherent to its operations. The Authority intends to vigorously defend its position and management is of the opinion that liabilities of a material nature will not be realized.

DFS Guam L.P. Specialty Retail Protest Litigation

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

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

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

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

The Authority appealed the Amended Judgment to the Guam Supreme Court, and DFS filed a cross-appeal. On August 11, 2020, the Guam Supreme Court vacated the Amended Judgment, and on December 7, issued an order granting GIAA’s petition for rehearing in part and also issued an Amended Opinion on Rehearing and an Amended Judgment. Because the Amended Judgment is now vacated, the specialty retail concession contract between GIAA and Lotte remains valid and enforceable.

On July 20, 2023, the Authority filed a Motion to Dismiss for Lack of Subject Matter Jurisdiction based on the July 18, 2023 Written Determination by the Executive Manager pursuant to Guam Procurement Law, rendering any disputes relating to the Lotte Agreement, moot. On July 31, 2023, the court denied the Authority’s motion to dismiss and ordered that Phase 1 of the trial commence on August 2, 2023, where the parties presented evidence and testimony only on the timeliness of DFS’s protests. Phase 1 concluded on August 8, 2023. The matter is now before the Superior Court for issuance of findings of facts and conclusions of law.

Although the parties proceeded with Phase 1 of the trial, the Authority is considering appellate review of the Superior Court’s denial of the Motion to Dismiss for Lack of Subject Matter Jurisdiction. The outcome of any appellate review as well as the Superior Court’s findings of fact and conclusions of law will impact how the matter will proceed, if at all

DFS v. Lotte Tort Action

In the *Specialty Retail Protest Litigation* against the Authority relating to the 2012 RFP, Lotte was also a named defendant. On September 1, 2015, the Court granted in part a motion to dismiss brought by Lotte. The Court dismissed DFS’s Third, Sixth, Ninth, Twelfth, Fifteenth and Seventeenth causes of action brought under the Procurement Law against Lotte. The Court denied dismissal of DFS’s tort claim against Lotte and severed that claim into a separate action, CV0943-14-01 and CV0094-15-01 (the “Tort Action”). On April 18, 2023, DFS filed a request for status conference to address matters of scheduling in case management. The Court has not yet responded to DFS’ request.

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

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

DFS Guam L.P. (DFS) Holdover Dispute

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

In 2014, DFS initiated the arbitration. In 2016, the arbitration panel awarded DFS \$1.9 million in damages plus interest, costs, and attorney's fees. DFS also filed a separate action arising from this dispute pursuant to the Guam Government Claims Act, in which both parties have filed claims and counterclaims against each other alleging various breaches of contract. In October 2018, the Authority moved to dismiss this action for failure to prosecute, which is still pending before the Superior Court.

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

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

On September 9, 2021, the Superior Court filed a decision and order denying GIAA's motion and granting DFS's motion to correct an error in the Confirmation Order. Based on the decision and order, the Superior Court filed an Amended Judgment on the same day, which GIAA appealed. On September 30, 2021, GIAA filed a motion in the Superior Court to stay enforcement of the Amended Judgment, which GIAA is entitled to as a matter of right as a governmental entity. DFS opposed the motion. GIAA's motion to stay enforcement is still pending before the Superior Court.

On August 7, 2023, the Guam Supreme Court issued an opinion affirming the Confirmation Order. The Supreme Court remanded the case to the Superior Court for a determination of the amount of reasonable attorney's fees incurred by DFS in the litigation and interest due. Mandate will be issued by the Supreme Court seven (7) calendar days after the time to file a petition for rehearing expires, or seven (7) calendar days after entry of an order denying a timely petition for panel rehearing, petition for rehearing *en banc*, or motion for stay of mandate, whichever is later. As a government agency, the Authority has forty-five (45) days after entry of judgment to file a petition for rehearing. The Authority must pay: (i) \$1,854,528 in damages; (ii) Interest of 6% on (i) from December 5, 2013 until paid in full; (iii) Reasonable attorneys fees of \$388,223.20; (iv) \$84,770 in costs; (v) Interest of 6% on (iii) until paid in full; and (vi) Reasonable attorneys fees incurred by DFS in the litigation.

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

Notes to Financial Statements, continued

11. Commitments and Contingencies, continued

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

DFS also has a pending motion for additional attorney's fees before the Superior Court in the amount of \$239,792.25 and costs of \$5,786.50 plus additional fees and costs incurred after March 30, 2019 in connection with the action which will be part of the Superior Court's review as set forth by the Supreme Court after the mandate is issued. The Authority is considering whether rehearing is warranted and will continue to vigorously defend against all claims and will seek to offset any adverse monetary judgment through its counterclaims in the DFS Government Claim lawsuit. The Authority has recorded a provision for loss amounting to approximately \$3.1 million as of September 30, 2022 as a component of other current liabilities.

Exchange License Agreement

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

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

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

Other

In December of 2012, the Department of Administration paid out merit bonuses for line agency employees who met the criteria set forth pursuant to 4 GCA Chapter 6 § 6203. Merit bonuses are to be paid to employees who receive a superior rating evaluation conducted for increment purposes. The Authority is currently conducting its due diligence to determine its obligation to pay out merit bonuses. At September 30, 2013, the Authority has accrued about \$1.5 million as an estimate of costs to pay bonuses for the airport employees. In addition, the Authority has accrued about \$681,000 as costs for the last incremental 10% salary increase for Airport Rescue Firefighters and Airport Police uniformed personnel pursuant to Public Law 29-105. This payment is for fiscal years 2012 and 2013. At September 30, 2022, \$248,000 remained as unpaid obligation for inactive employees.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to Financial Statements, continued

12. Customs, Agriculture and Quarantine Inspection Services Charge

During the year ended September 30, 2022, the Authority has assessed and collected from air carrier fees for customs and agricultural inspection services rendered at the Airport terminal. Guam Public Law 23-45 requires the Authority to remit all collections, within five days of receipt, to the Treasurer of Guam for deposit to the Customs, Agriculture and Quarantine Inspection Services Fund.

For the year ended September 30, 2022, fees assessed to air carriers related to the aforementioned arrangement totaled approximately \$2.6 million and remittances to the Treasurer of Guam related to the aforementioned arrangement totaled approximately \$201 thousand. The Authority also offset approximately \$1.7 million of customs fee payable with amounts owed from GovGuam CQA for its various lease agreements with the Authority.

At September 30, 2022, the Authority recorded customs fees payable to the Treasurer of Guam totaling \$967,035, for the above charges, of which \$966,439 is reflected as customs fees, receivables in the accompanying statement of net position. The fees are not reflected as an expense or revenue by the Authority.

Required Supplementary Information

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

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

Defined Benefit Plan
(Unaudited)

Last 10 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability	2.54%	2.56%	2.56%	2.54%	2.46%	2.45%	2.35%	2.45%	2.32%
Authority's proportionate share of the net pension liability	\$ 24,446,987	\$ 31,875,010	\$ 31,118,382	\$ 29,987,434	\$ 28,053,913	\$ 33,532,175	\$ 32,241,435	\$ 30,570,481	\$ 30,256,332
Authority's covered payroll	\$ 14,070,098	\$ 15,172,534	\$ 13,286,188	\$ 13,099,014	\$ 13,253,631	\$ 13,107,529	\$ 13,353,696	\$ 12,788,348	\$ 12,883,180
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	173.75%	210.08%	234.22%	228.93%	211.67%	255.82%	241.44%	239.05%	234.85%

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

Antonio B. Won Pat International Airport Authority, Guam
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Schedule 2
Required Supplementary Information
Schedule of the Authority's Contributions

Defined Benefit Plan
(Unaudited)

Last 10 Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contributions	\$ 3,841,957	\$ 3,521,603	\$ 3,390,951	\$ 3,106,326	\$ 2,242,956	\$ 2,966,912	\$ 3,060,666	\$ 3,178,277	\$ 3,297,500	\$ 2,857,688
Contribution in relation to the contractually required contribution	<u>3,841,957</u>	<u>3,521,603</u>	<u>3,390,951</u>	<u>3,106,326</u>	<u>2,242,956</u>	<u>2,966,912</u>	<u>3,060,666</u>	<u>3,178,277</u>	<u>3,297,500</u>	<u>2,857,688</u>
Contribution excess	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>
Authority's covered-employee payroll	\$ 15,234,917	\$ 14,070,098	\$ 14,926,162	\$ 13,417,930	\$ 13,099,014	\$ 13,253,631	\$ 13,107,529	\$ 13,353,696	\$ 12,788,348	\$ 12,883,180
Contribution as a percentage of the Authority's covered-employee payroll	25.22%	25.03%	22.72%	23.15%	17.12%	22.39%	23.35%	23.80%	25.79%	22.18%

Antonio B. Won Pat International Airport Authority, Guam
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Schedule 3
Required Supplementary Information
Schedule of the Authority's Proportionate Share of Collective Total Pension Liability

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

Last 10 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Authority's proportionate share of the collective total pension liability	\$ 3,182,469	\$ 3,178,724	\$ 2,950,852	\$ 2,785,670	\$ 2,698,911	\$ 2,086,977	\$ 2,034,619
Authority's proportion of the collective total pension liability	0.99%	0.99%	0.91%	0.96%	0.94%	0.91%	0.86%

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

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

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

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

Last 10 Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contributions	\$ 240,309	\$ 234,509	\$ 234,947	\$ 215,570	\$ 226,046	\$ 224,018	\$ 218,041	\$ 214,041	\$ 198,678	\$ 150,712
Contribution in relation to the contractually required contribution	<u>240,309</u>	<u>234,509</u>	<u>234,947</u>	<u>215,570</u>	<u>226,046</u>	<u>224,018</u>	<u>218,041</u>	<u>214,041</u>	<u>198,678</u>	<u>150,712</u>
Contribution excess	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>

Antonio B. Won Pat International Airport Authority, Guam
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Schedule 5
Required Supplementary Information
Schedule of the Authority's Proportionate Share of Collective Total Pension Liability

Ad Hoc COLA Plan for DCRS Participants
(Unaudited)

Last 10 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Authority's proportionate share of the collective total pension liability	\$ 1,118,872	\$ 1,110,356	\$ 1,234,060	\$ 1,053,200	\$ 1,365,758	\$ 1,301,894	\$ 1,043,706
Authority's proportion of the collective total pension liability	1.59%	1.67%	2.06%	2.13%	2.19%	2.11%	2.00%

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

Antonio B. Won Pat International Airport Authority, Guam
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Schedule 6
Required Supplementary Information
Schedule of the Authority's Contributions

Ad Hoc COLA Plan for DCRS Participants
(Unaudited)

Last 10 Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contributions	\$ 3,841,957	\$ 3,521,603	\$ 3,390,951	\$ 3,106,326	\$ 2,242,956	\$ 2,966,912	\$ 3,060,666	\$ 3,178,277	\$ 3,297,500	\$ 2,857,688
Contribution in relation to the contractually required contribution	<u>3,841,957</u>	<u>3,521,603</u>	<u>3,390,951</u>	<u>3,106,326</u>	<u>2,242,956</u>	<u>2,966,912</u>	<u>3,060,666</u>	<u>3,178,277</u>	<u>3,297,500</u>	<u>2,857,688</u>
Contribution excess	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>
Authority's covered-employee payroll	\$ 15,234,917	\$ 14,070,098	\$ 14,926,162	\$ 13,417,930	\$ 13,099,014	\$ 13,253,631	\$ 13,107,529	\$ 13,353,696	\$ 12,788,348	\$ 12,883,180
Contribution as a percentage of the Authority's covered-employee payroll	25.22%	25.03%	22.72%	23.15%	17.12%	22.39%	23.35%	23.80%	25.79%	22.18%

Antonio B. Won Pat International Airport Authority, Guam
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Schedule 7
Required Supplementary Information
Schedule of the Authority's Proportionate Share of Collective Total Other Postemployment
Benefit Liability
(Unaudited)

Last 10 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Authority's proportion of the total collective other postemployment benefit liability	1.83%	1.80%	2.48%	2.40%	1.92%	1.91%
Authority's proportionate share of the collective total other postemployment benefit liability	\$ 50,781,242	\$ 45,366,213	\$ 63,444,611	\$ 45,048,838	\$ 46,614,484	\$ 48,343,156

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

Antonio B. Won Pat International Airport Authority, Guam
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Schedule 8
Required Supplementary Information
Schedule of the Authority's Contributions

Other Postemployment Benefit Plan
(Unaudited)

Last 10 Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contributions	\$ 529,407	\$ 463,603	\$ 515,865	\$ 502,180	\$ 440,077	\$ 445,487	\$ 408,841	\$ 362,761	\$ 256,563	\$ 261,312
Contribution in relation to the contractually required contribution	<u>529,407</u>	<u>463,603</u>	<u>515,865</u>	<u>502,180</u>	<u>440,077</u>	<u>445,487</u>	<u>408,841</u>	<u>362,761</u>	<u>256,563</u>	<u>261,312</u>
Contribution excess	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>

Antonio B. Won Pat International Airport Authority, Guam
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Note to Required Supplementary Information
(Unaudited)

Changes of Assumptions – Pension Plans

Amounts reported in 2021 actuarial valuation reflected an assumption related to administrative expenses to decrease to \$6,565,000 per year.

Amounts reported in 2020 actuarial valuation reflected an assumption related to administrative expenses to decrease to \$6,439,000 per year.

Amounts reported in 2019 actuarial valuation reflected an assumption related to administrative expenses to decrease to \$6,860,000 per year.

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

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

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

Amounts reported in 2015 actuarial valuation reflect a change in assumption of payroll growth to 3% rather than 3.5% which was used to determine amounts reported prior to 2015. Amounts reported in 2014 reflect an adjustment of the expectations of salary increases, disability and retirement age to more closely reflect actual experience. The amounts reported in the 2011 actuarial valuation reflect an expectation of retired life mortality based on the RP-2000 Mortality Table rather than the 1994 U.S. Uninsured Pensioners Table, which was used to determine amounts reported prior to 2011. Amounts reported in 2011 also reflect a change in assumption on valuation of assets to a 3-year phase in for gains/losses relative to interest rate assumption from market value, with fixed income investments at amortized costs which was used to determine amounts reported prior to 2011.

Supplementary and Other Information

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

Year ended September 30, 2022

Schedule 9
Facilities and Systems Usage Charges

Landing	\$	2,797,423
Departure facilities		2,304,411
Arrival facilities		1,432,759
Passenger loading bridge usage charge		1,402,017
Public apron		1,024,902
Utility recovery and other fees		700,154
Immigration		455,453
Fuel flowage		242,143
Common use ticket counter fees		183,371
		183,371
	\$	10,542,633

Schedule 10
Concession Fees

General merchandise	\$	10,258,928
Car rental		856,535
Food and beverage		439,742
Ground transportation		407,880
In-flight catering		393,306
Other		168,519
Advertising		141,638
Parking lot		120,882
Money exchange		(50,100)
		(50,100)
	\$	12,737,330

Schedule 11
Rental Income

Operating space:		
- Non-airline	\$	3,634,117
- Airline		1,904,161
Building and maintenance shop rentals		1,807,568
Other		1,768,855
Cargo rentals		287,439
		287,439
	\$	9,402,140

Antonio B. Won Pat International Airport Authority, Guam
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Schedule 12
Contractual Services

Power	\$	6,760,823
Repairs and maintenance		4,671,161
Professional services		4,130,711
Insurance		1,170,383
Miscellaneous		1,550,084
Utilities and telephone		306,907
Advertising and promotions		189,101
Travel/training and certifications		<u>187,942</u>
	\$	<u><u>18,967,112</u></u>

Schedule 13
Personnel Services

Salaries and wages	\$	15,470,551
Retirement contributions		2,087,475
Insurance		<u>1,349,252</u>
	\$	<u><u>18,907,278</u></u>
Full-time employee count in September		<u><u>203</u></u>

Schedule 14
Materials and Supplies

Equipment and vehicle maintenance and supplies	\$	445,656
Miscellaneous		272,735
Electrical and plumbing		248,718
Office and security supplies		223,739
Building maintenance and supplies		<u>109,283</u>
	\$	<u><u>1,300,131</u></u>

Antonio B. Won Pat International Airport Authority, Guam
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Year ended September 30, 2022

Schedule 15
Insurance Coverage

Name of Insurer	Policy	Risk Coverage
AIG/National Union Fire Insurance Company of Pittsburg, PA.	Airport Operations Liability	\$ 500,000,000
AIG/National Union Fire Insurance Company of Pittsburg, PA.	Property Insurance	\$ 200,000,000
AIG/National Union Fire Insurance Company of Pittsburg, PA.	Catastrophe Insurance	\$ 5,000,000
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
Tokyo Marine Pacific Insurance Ltd.	Workers' Compensation	\$ 1,000,000
Dongbu Insurance Co., Ltd. Seoul, Korea	Crime Insurance	\$ 1,000,000

Antonio B. Won Pat International Airport Authority, Guam
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Year ended September 30, 2022

Schedule 16
Debt Service Computation

Net Revenues

Revenues

Operating Revenues	\$ 33,190,608
Non-Operating Revenues : Passenger Facility Charges	1,349,348
Non-Operating Revenues : Interest Income	818,954
Non-Operating Revenues : Grants from the US	24,182,086
Non-Operating Revenues : Grants from GovGuam	24,050
Capital Grants from the US	23,498,637

Less:

Interest Income from CIF	(62,970)
Capital Grants from the US	(23,498,637)
Operation and Maintenance Expenses	(39,174,521)
Miscellaneous Expenses	(1,911,178)
Other Bookkeeping Entries: Noncash Pension Cost	1,790,262
Other Bookkeeping Entries: Noncash OPEB Cost	1,637,823
Other Bookkeeping Entries: GASB 87	(4,900,192)
Actual Contribution to GGRF	(4,251,331)
Actual Contribution to DOA	(529,407)
	12,163,532

Other Available Monies (lesser of amount in CIF or

25% of debt service fund)	
Capital Improvement Fund	4,482,746
25% of Debt Service	2,018,555
	\$ 2,018,555

Aggregate Annual Debt Service

Sum of interest due during the year	\$ 8,074,221
	\$ 8,074,221

Debt Service Ratio

Net Revenues	\$ 12,163,532
Other Available Monies	2,018,555
	14,182,087
Divided By: Aggregate Annual Debt Service	\$ 8,074,221
	1.76

Antonio B. Won Pat International Airport Authority, Guam
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Year ended September 30, 2022

Schedule 17
Employee Data
(Unaudited)

<u>Department</u>	<u>Employees (a)</u>	<u>Personnel Services (b)</u>
	<u>2022</u>	<u>2022</u>
Board	\$ 1	\$ 57,231
Administration (c)	33	1,533,612
Property Management	10	911,861
Accounting	11	1,078,284
Engineering	9	1,084,500
Operations	20	2,048,316
Properties & Facilities		
Maintenance	36	3,006,652
Airport Police	46	5,477,533
Aircraft Rescue Fire		
Fighting	<u>37</u>	<u>3,709,289</u>
Total	<u><u>203</u></u>	<u><u>\$ 18,907,278</u></u>

Notes:

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

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

c. Administration consists of:

	<u>2022</u>
Executive management	5
Administrative support	10
Personnel	4
Marketing	3
Procurement	7
Management information system	<u>4</u>
	<u><u>33</u></u>