

**PORT AUTHORITY OF GUAM  
(A COMPONENT UNIT OF  
THE GOVERNMENT OF GUAM)**

---

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

---

**SEPTEMBER 30, 2007 AND 2006**

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Port Authority of Guam:

We have audited the accompanying statements of net assets of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The supplementary information included in Schedule 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2008, on our consideration of the Port Authority of Guam's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Deloitte & Touche LLP*  
January 22, 2008

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Management's Discussion and Analysis  
September 30, 2007 and 2006

**Introduction**

As management of the Port Authority of Guam (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended September 30, 2007 and 2006, with selected comparative information for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements which immediately follow this discussion.

The Port Authority of Guam was established as a public corporation and autonomous agency of the Government of Guam by Public Law 13-87 in October 1975. The Authority operates the only commercial seaport in the Territory and, as the primary seaport in Micronesia, serves as a transshipment point for the entire Western Pacific region. It operates the largest U.S. deepwater port in the region and currently handles about 2 million tons of cargo a year. The Authority owns 5 cargo-handling piers along with two fuel piers and three marinas. The cost for operations and capital improvements are funded largely from the Authority's own revenues.

The Authority is presided over by five board members appointed by the Governor of Guam with the advice and consent of the Legislature. The Board of Directors appoints the General Manager and Deputy General Manager, who are responsible for maintenance, operation and development of the Authority and the agency's business affairs.

**Overview of the Financial Statements and Analysis**

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The statements of net assets and the statements of revenues, expenses and changes in net assets tell us whether the Authority's financial position has improved as a result of the year's activities. The statements of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the Authority is improving or deteriorating. The statements of revenues, expenses and changes in net assets show how the Authority's net assets changed during the year. These changes are reported as the underlying events occur regardless of the timing of related cash flows.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Management's Discussion and Analysis  
September 30, 2007 and 2006

**Financial Highlights and Analysis**

The statements of net assets present the financial position of the Authority at the end of the fiscal year. A summarized comparison of the Authority's assets, liabilities, and net assets at September 30 is as follows:

**Condensed Statements of Net Assets**

| ASSETS                            | 2007                 | %         | 2006              | %           | 2005              |
|-----------------------------------|----------------------|-----------|-------------------|-------------|-------------------|
|                                   |                      | Change    |                   | Change      |                   |
| Current and other assets          | \$ 17,501,053        | -12%      | 19,894,901        | -4%         | 20,755,889        |
| Capital assets                    | 47,058,373           | 11%       | 42,562,936        | 0%          | 42,692,538        |
| <b>Total assets</b>               | <b>\$ 64,559,426</b> | <b>3%</b> | <b>62,457,837</b> | <b>-2%</b>  | <b>63,448,427</b> |
| <b>LIABILITIES AND NET ASSETS</b> |                      |           |                   |             |                   |
| Current liabilities               | \$ 7,355,194         | -6%       | 7,857,862         | -33%        | 11,671,470        |
| Other non-current liabilities     | 7,285,355            | 16%       | 6,290,793         | 26%         | 5,004,195         |
| <b>Total liabilities</b>          | <b>14,640,549</b>    | <b>3%</b> | <b>14,148,655</b> | <b>-15%</b> | <b>16,675,665</b> |
| <b>Net assets:</b>                |                      |           |                   |             |                   |
| Invested in capital assets        | 47,058,373           | 10%       | 42,562,936        | 0%          | 42,692,538        |
| Unrestricted                      | 2,860,504            | -50%      | 5,746,246         | 41%         | 4,080,224         |
| <b>Total net assets</b>           | <b>49,918,877</b>    | <b>3%</b> | <b>48,309,182</b> | <b>3%</b>   | <b>46,772,762</b> |
| <b>Total</b>                      | <b>\$ 64,559,426</b> | <b>3%</b> | <b>62,457,837</b> | <b>-2%</b>  | <b>63,448,427</b> |

The total assets of the Authority exceeded its liabilities by \$49.9 million at September 30, 2007. This represented an increase of \$1.6 million or 3% compared with the prior fiscal year. Of the \$49.9 million, \$47 million is invested in capital assets and \$2.9 million is unrestricted.

The decrease in current assets was due to the acquisition of equipment and an increase in capital improvement projects that were fully paid by the end of fiscal year 2007; this resulted in a 15% decrease in the Authority's cash balance compared to the prior fiscal year. Capital assets increased by 10%, primarily due to the acquisition of Authority lifting equipment and increases in capital improvement projects. The net result on the Authority's total assets as of fiscal year 2007 was an increase of \$2.1 million or 3% from fiscal year 2006.

The total liabilities for fiscal year 2007 increased by 3% compared to prior fiscal year due to increases in the long-term unfunded liability to the Government of Guam Retirement Fund and accrued sick leave, by 14% and 15%, respectively.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Management's Discussion and Analysis  
September 30, 2007 and 2006

**Summary of Operations and Changes in Net Assets**

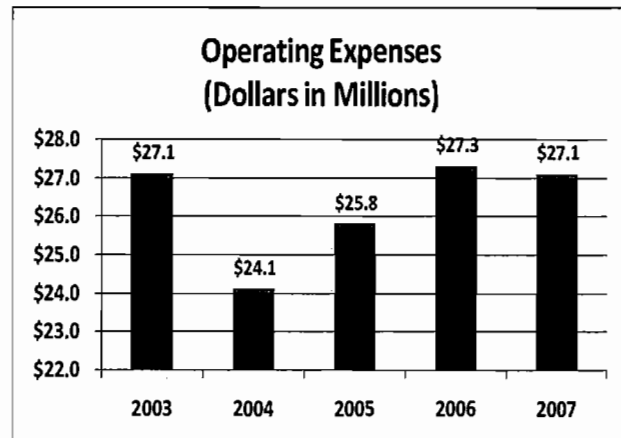
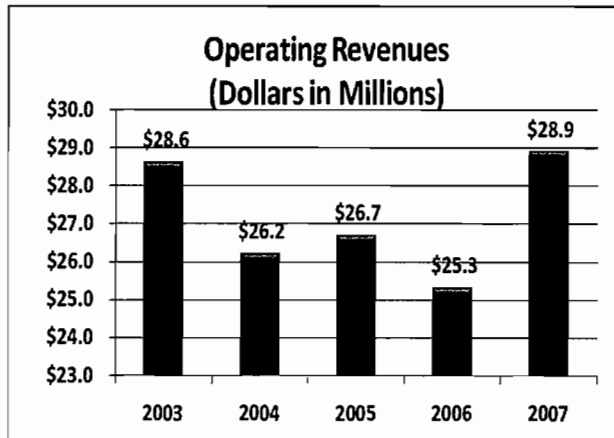
The statement of revenues, expenses, and changes in net assets shows how the Authority's net assets changed during the current and previous fiscal year as a result of operations. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g. uncollected receivables). The change in net assets is an indicator of whether the overall fiscal condition of the Authority has improved or worsened during the year. Following is a summary of the statements of revenues, expenses, and changes in net assets for the years ended September 30:

|  | 2007          | %      | 2006         | %      | 2005         |
|--|---------------|--------|--------------|--------|--------------|
|  |               | Change |              | Change |              |
| Operating revenues                         | \$ 28,937,152 | 14%    | 25,272,928   | -5%    | 26,661,100   |
| Operating expenses                         | (24,620,931)  | -1%    | (24,793,155) | 5%     | (23,551,772) |
| Operating Income before Depreciation       | 4,316,221     | 800%   | 479,773      | -85%   | 3,109,328    |
| Depreciation                               | (2,458,283)   | 0%     | (2,468,866)  | 1%     | (2,440,866)  |
| Operating income (loss)                    | 1,857,938     | 193%   | (1,989,093)  | -398%  | 668,462      |
| Nonoperating revenues (expenses), net      | (526,990)     | -119%  | 2,799,418    | 370%   | (1,036,287)  |
| Earnings before capital contributions      | 1,330,948     | 64%    | 810,325      | -320%  | (367,825)    |
| Capital Contributions-US Government Grants | 278,747       | -62%   | 726,095      | -15%   | 856,441      |
| Increase in net assets                     | 1,609,695     | 5%     | 1,536,420    | 214%   | 488,616      |
| Net assets at beginning of year            | 48,309,182    |        | 46,772,762   |        | 46,284,146   |
| Net assets at end of year                  | \$ 49,918,877 | 3%     | 48,309,182   | 3%     | 46,772,762   |

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Management's Discussion and Analysis  
September 30, 2007 and 2006

**Summary of Operations and Changes in Net Assets, Continued**



**Revenues:** Total 2007 operating revenues increased by \$3.7 million or 14% from 2006 operating revenues. The rise in the amount of cargo handled and the implementation of the Tariff policy memorandums passed by the Board of Directors this fiscal year were the reasons for the increase in the Authority's operating revenues. The total domestic container-cargo throughput revenue is \$15.7 million for fiscal year 2007, which is 75% of the total cargo throughput revenues, increased by \$1.8 million or 13% from 2006 figures. Transshipment revenue increased by \$705 thousand or 35% compared to last year. Other revenue categories that posted higher revenues compared to fiscal year 2006 were wharfage charges- 10%, equipment and space rentals- 8% and special services – 33%.

**Expenses:** The operating expense in fiscal year 2005 totaling \$23.6 million increased by 5% to \$27.3 million in fiscal year 2006. In fiscal year 2007, the total operating expense is \$27.1 million, a decrease of 1% compared to prior fiscal year.

**Non-Operating:** The total non-operating revenue in fiscal year 2007 totaling \$753 thousand dropped by \$3.3 million or 81% from a total of \$4 million in fiscal year 2006. This is largely due to the earthquake/typhoon gain of \$3.2 million that was recorded in fiscal year 2006. The 2006 non-operating revenue total was an increase of \$3.7 million compared to fiscal year 2005 total of \$304 thousand.

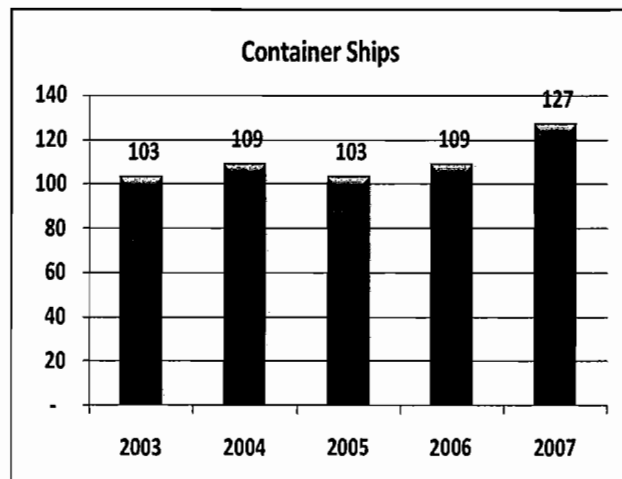
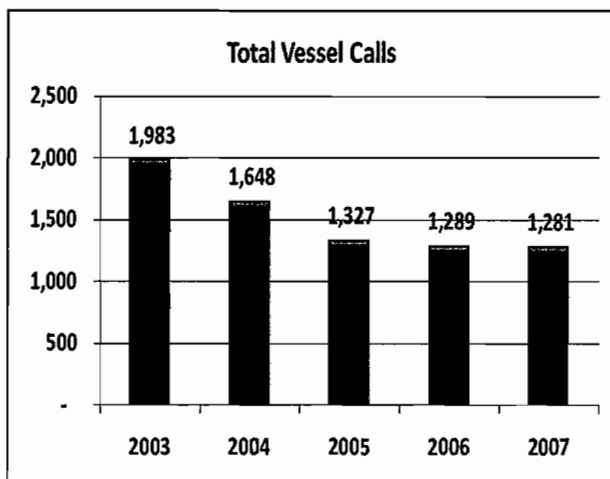
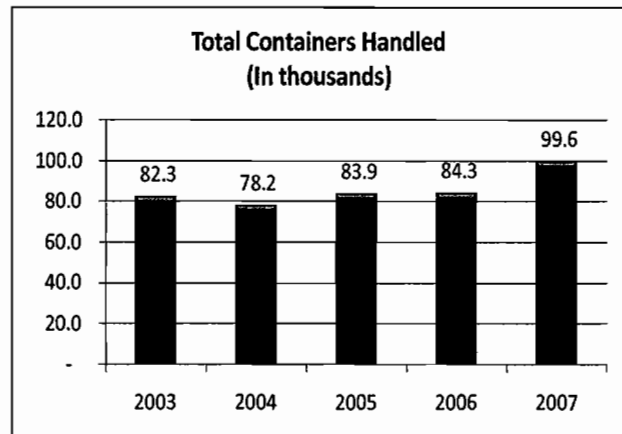
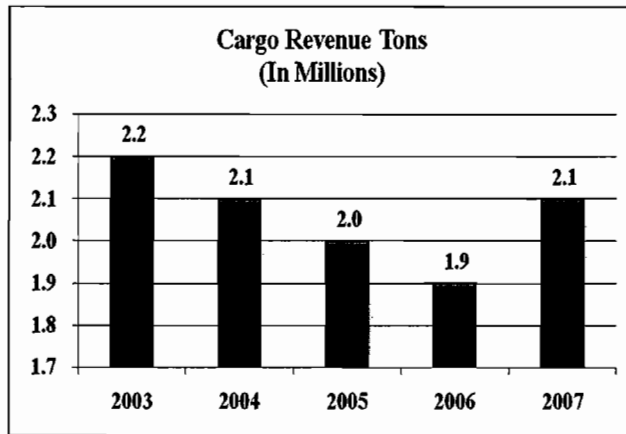
The fiscal year 2007 total non operating expense is \$1.3 million, which is an increase of \$100 thousand from \$1.2 million in 2006. The net of the non-operating revenue and expense is a negative \$527 thousand in fiscal year 2007 compared to a positive \$2.8 million in fiscal year 2006.

As a result of the above, the fiscal year 2007 operating income before depreciation is \$4.3 million, an 800% increase from \$480 thousand in fiscal year 2006. After depreciation expense, the Authority's operating income in fiscal year 2007 is \$1.9 million, a 193% increase from last year's operating loss of \$2 million. The total increase in net assets for fiscal year 2007 is \$1.6 million, after the addition of non-operating income (loss) and Federal grants.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Management's Discussion and Analysis  
September 30, 2007 and 2006

**Vessel and Cargo Statistics**



- The Port Authority has once again exceeded the 2 million mark cargo tonnage in fiscal year 2007. It was only in fiscal year 2006 that cargo tonnage went below 2 million. This feat was attained from 2003 to 2005.
- The number of containers that were handled in the Port docks increased from 84.3 thousand containers in fiscal year 2006 to 99.6 thousand in fiscal year 2007, an 18% improvement from prior year.
- The total vessel calls decreased from 1,289 in fiscal year 2006 to 1,281 in fiscal year 2007. The decrease of the total vessel calls was primarily due to the loss of fishing vessel calls.
- Container ships have increased by 17%, from 109 container vessels in fiscal year 2006 to 127 container vessels in fiscal year 2007. This is largely due to the addition of Matson Islander, which is serving the outer islands of Yap, Pohnpei, Marshall Islands and others, to the regular container vessels that come to the Port.

**CAPITAL ASSETS**

The Authority's capital assets as of September 30, 2007, amounted to \$47.0 million (net of accumulated depreciation). The investment in capital assets in 2007 includes a mobile gantry crane, 8 brand new tractors, gantry crane refurbishment and upgrades, vehicles, marina and port facilities improvements,



**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Management's Discussion and Analysis  
September 30, 2007 and 2006

office equipments, furniture and fixtures, and construction work in progress. The total increase in the Authority's investment in capital assets after accumulated depreciation for 2007 was 11%, or \$4.5 million.

**MASTER PLAN**

In the last quarter of fiscal year 2007, the Authority awarded the contract for consulting services to update the Port's master plan to Parsons Brinckerhoff International Inc. Besides updating the master plan, the scope of services also includes an Impact Assessment on the Port's facilities due to relocation of Okinawa-based military personnel and related additional activities to Guam and other anticipated major developments.

**PERFORMANCE MANAGEMENT CONTRACT (PMC)**

In October 24, 2007, the Governor signed Public Law No. 29-23, a bill introduced by the late Senator Antonio Unpingco, which authorizes the Board of Directors of the Jose D. Leon Guerrero Commercial Port to enter into a Public-Private Partnership through a Performance Management Contract for the management, operation and maintenance of the Port cargo handling equipment and/or facilities associated with such equipment and /or other aspects of the port operations.

**OUTLOOK FOR 2008**

The following are prospective strategic plan of action in meeting the anticipated increase in cargos, primarily due to the increase in military activities.

- Interim crane options
- Purchase of new lifting equipment - forklifts and toplifters
- Information Technology System Upgrade
- Economic Impact Study (EIS) for F-7 wharf and container yard expansion
- Architectural and Engineering (A&E) design for F7 wharf and container yard expansion
- Performance Management Contract (PMC) – Cargo Handling
- Yard Lighting Upgrades
- Replacement work on existing crane rails
- Additional Reefer outlets

**CONTACTING THE PORT'S FINANCIAL MANAGEMENT**

The Management Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Port's operations. This financial report is designed to provide a general overview of the Port Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the years ended September 30, 2006 and 2005 is set forth in the Authority's report on the audit of financial statements which is dated January 12, 2007. That Discussion and Analysis explains in more detail major factors impacting the 2006 and 2005 financial statements. A copy of that report can be obtained by contacting the Financial Controller or from the Authority's website at the addresses noted below.

For additional information about this report, please contact Mr. Jojo Guevara, Finance Controller, Port Authority of Guam, 1026 Cabras Highway Suite 201, Piti, Guam 96915 or visit the website at [www.portofguam.com](http://www.portofguam.com).

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Statements of Net Assets  
September 30, 2007 and 2006

| <u>ASSETS</u>   | <u>2007</u>          | <u>2006</u>          |
|---|----------------------|----------------------|
| Current assets:   |                      |                      |
| Cash  | \$ 13,764,572        | \$ 16,289,151        |
| Investment in time certificates of deposit  | 500,000              | 1,000,000            |
| Accounts receivable, net of allowance for doubtful accounts<br>of \$805,412 in 2007 and \$789,738 in 2006 | <u>3,028,543</u>     | <u>2,378,424</u>     |
| Total current assets  | 17,293,115           | 19,667,575           |
| Replacement parts inventories, net of allowance for<br>obsolescence of \$116,630 in 2007 and 2006         | 207,938              | 227,326              |
| Property, plant and equipment, net  | <u>47,058,373</u>    | <u>42,562,936</u>    |
|   | <u>\$ 64,559,426</u> | <u>\$ 62,457,837</u> |
| <br><u>LIABILITIES AND NET ASSETS</u><br><br>   |                      |                      |
| Current liabilities:  |                      |                      |
| Accounts payable, trade   | \$ 1,891,470         | \$ 1,796,282         |
| Security deposits and other payables  | 146,793              | 133,960              |
| Accrued typhoon and earthquake damages  | 3,775,594            | 4,415,246            |
| Accrued payroll and withholdings  | 702,798              | 593,474              |
| Current portion of accrued annual leave   | 696,348              | 764,063              |
| Deferred revenue  | <u>142,191</u>       | <u>154,837</u>       |
| Total current liabilities   | 7,355,194            | 7,857,862            |
| Accrued annual leave, less current portion  | 326,405              | 205,203              |
| Accrued sick leave  | 531,608              | 462,097              |
| Unfunded pension costs  | <u>6,427,342</u>     | <u>5,623,493</u>     |
| Total liabilities   | <u>14,640,549</u>    | <u>14,148,655</u>    |
| Commitments and contingencies   |                      |                      |
| Net assets:   |                      |                      |
| Invested in capital assets  | 47,058,373           | 42,562,936           |
| Unrestricted  | <u>2,860,504</u>     | <u>5,746,246</u>     |
| Total net assets  | <u>49,918,877</u>    | <u>48,309,182</u>    |
|   | <u>\$ 64,559,426</u> | <u>\$ 62,457,837</u> |

See accompanying notes to financial statements.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2007 and 2006

|   | <u>2007</u>          | <u>2006</u>          |
|---|----------------------|----------------------|
| Operating revenues:                                 |                      |                      |
| Cargo throughput charges                            | \$ 20,824,881        | \$ 17,832,627        |
| Wharfage charges                                    | 3,917,842            | 3,560,685            |
| Equipment and space rental                          | 3,702,054            | 3,413,322            |
| Special services                                    | 394,948              | 296,429              |
| Other operating income                              | <u>97,427</u>        | <u>169,865</u>       |
|   | 28,937,152           | 25,272,928           |
| Less bad debts                                      | <u>(15,674)</u>      | <u>-</u>             |
|   | <u>28,921,478</u>    | <u>25,272,928</u>    |
| Operating expenses:                                 |                      |                      |
| Management and administration                       | 5,900,550            | 5,800,852            |
| Equipment maintenance                               | 5,146,553            | 5,787,375            |
| Transportation services                             | 3,481,801            | 3,395,466            |
| Insurance   | 2,648,925            | 2,696,543            |
| Depreciation  | 2,458,283            | 2,468,866            |
| Stevedoring services                                | 2,370,790            | 2,304,637            |
| Terminal services                                   | 1,396,265            | 1,484,840            |
| Facility maintenance                                | 1,330,827            | 1,268,412            |
| Utilities   | 1,307,429            | 1,298,478            |
| General expenses                                    | <u>1,022,117</u>     | <u>756,552</u>       |
| Total operating expenses                            | <u>27,063,540</u>    | <u>27,262,021</u>    |
| Earnings (loss) from operations                     | <u>1,857,938</u>     | <u>(1,989,093)</u>   |
| Nonoperating (expenses) revenues:                   |                      |                      |
| Interest income                                     | 747,114              | 801,170              |
| COLA/supplemental annuities                         | (1,139,971)          | (1,114,872)          |
| Loss from disposal of property, plant and equipment | (139,054)            | (100,467)            |
| Estimated earthquake and typhoon gain               | <u>4,921</u>         | <u>3,213,587</u>     |
| Total nonoperating (expenses) revenues, net         | <u>(526,990)</u>     | <u>2,799,418</u>     |
| Earnings before capital contributions               | 1,330,948            | 810,325              |
| Capital contributions:                              |                      |                      |
| Grants from the U.S. Government                     | <u>278,747</u>       | <u>726,095</u>       |
| Increase in net assets                              | 1,609,695            | 1,536,420            |
| Net assets at beginning of year                     | <u>48,309,182</u>    | <u>46,772,762</u>    |
| Net assets at end of year                           | <u>\$ 49,918,877</u> | <u>\$ 48,309,182</u> |

See accompanying notes to financial statements.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Statements of Cash Flows  
Years Ended September 30, 2007 and 2006

|  | 2007          | 2006           |
|--|---------------|----------------|
| Cash flows from operating activities:  |               |                |
| Cash received from customers   | \$ 28,293,019 | \$ 25,862,910  |
| Cash payments to suppliers for goods and services  | (8,521,267)   | (8,595,400)    |
| Cash payments to employees for services and benefits   | (16,060,381)  | (15,932,495)   |
| Net cash provided by operating activities  | 3,711,371     | 1,335,015      |
| Cash flows from investing activities:  |               |                |
| Interest received  | 747,114       | 801,170        |
| Decrease in investment in time certificates of deposit   | 500,000       | 1,000,000      |
| Net cash provided by investing activities  | 1,247,114     | 1,801,170      |
| Cash flows from capital and related financing activities:  |               |                |
| Capital grants received  | 244,441       | 715,720        |
| Purchase of property, plant and equipment  | (7,092,774)   | (2,439,731)    |
| Net cash used in capital and related financing activities  | (6,848,333)   | (1,724,011)    |
| Cash flows from non-capital related financing activities:  |               |                |
| Earthquake and typhoon costs   | (634,731)     | (625,553)      |
| Net cash used in non-capital related financing activities  | (634,731)     | (625,553)      |
| Net (decrease) increase in cash  | (2,524,579)   | 786,621        |
| Cash at beginning of year  | 16,289,151    | 15,502,530     |
| Cash at end of year  | \$ 13,764,572 | \$ 16,289,151  |
| Reconciliation of earnings (loss) from operations to net cash provided by operating activities:        |               |                |
| Earnings (loss) from operations  | \$ 1,857,938  | \$ (1,989,093) |
| Adjustments to reconcile earnings (loss) from operations to net cash provided by operating activities: |               |                |
| Depreciation   | 2,458,283     | 2,468,866      |
| Payments for COLA/supplemental annuities   | (1,139,971)   | (1,114,872)    |
| Bad debts  | 15,674        | -              |
| (Increase) decrease in assets:   |               |                |
| Receivables  | (631,487)     | 618,498        |
| Replacement parts inventories  | 19,388        | 39,486         |
| Increase (decrease) in liabilities:  |               |                |
| Accounts payable, trade  | 95,188        | 104,116        |
| Security deposits and other payables   | 12,833        | (58,677)       |
| Accrued payroll and withholdings   | 109,324       | 11,892         |
| Accrued annual leave   | 53,487        | 63,893         |
| Accrued sick leave   | 69,511        | 46,994         |
| Unfunded pension costs   | 803,849       | 1,172,426      |
| Deferred revenue   | (12,646)      | (28,514)       |
| Net cash provided by operating activities  | \$ 3,711,371  | \$ 1,335,015   |

See accompanying notes to financial statements.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies

Organization

The Port Authority of Guam (the “Authority”) was created by Public Law 13-87 as an autonomous instrumentality of the Government of Guam to own and operate the facilities of the Commercial Port of Guam. All assets and liabilities were transferred from the Commercial Port of Guam to the Authority at book value effective April 20, 1976. The Authority is governed by a five member Board of Directors appointed by the Governor with consent provided by the Legislature. The Authority is a component unit of the Government of Guam.

The Authority’s main cargo handling facilities are located on thirty acres of reclaimed land on Cabras Island in Piti, Guam. Title to this land was transferred from the Government of Guam to the Authority in 1979. Eleven acres of adjacent property was assigned to the Authority from the U.S. Navy at an annual rent of \$1 to be used for future container yard expansion.

The Authority controls and/or manages approximately 260 acres of fast and submerged lands inclusive of the thirty acres noted previously. These areas include the Harbor of Refuge, Aqua World Marina, a portion of the Piti Channel, Agat Marina, Gregorio D. Perez Marina, Hotel Wharf, Dog Pier, Family Beach and the Port Authority Beach. In 1988, the Guam Economic Development Authority assigned the management of the thirty-two acre Cabras Industrial Park to the Authority.

Summary of Significant Accounting Policies

Basis of Accounting

The Authority utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with 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. GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting” requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The Authority’s revenues are derived primarily from providing various services to major shipping line customers under an approved tariff rate schedule and are reported as operating revenues. Capital, grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. All expenses related to operating the Authority are reported as operating expenses. COLA/supplemental annuities, and earthquake and typhoon damages and related insurance and Federal Emergency Management Agency recoveries are reported as non-operating expenses and revenues.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies, Continued

Summary of Significant Accounting Policies, Continued

Net Assets

Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of the following three sections:

- Invested in capital assets, net of related debt:  
Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:  
Nonexpendable – Net assets subject to externally imposed stipulations that require the Authority to maintain them permanently.  
Expendable – Net assets 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.
- Unrestricted:  
Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

The Authority does not have restricted net assets at September 30, 2007 and 2006.

Cash

For purposes of the statements of net assets and of cash flows, cash is defined as cash on hand and deposits in banks and time certificates of deposit with initial maturities of three months or less. Time certificates of deposits with initial maturities of more than three months are separately classified. The Authority has both the intent and the ability to hold its time certificates of deposit, carried at cost which approximates fair value, to maturity.

Trade Accounts Receivable

Substantially all of the Authority's trade receivables as of September 30, 2007 and 2006 are due from companies located or operating in Guam. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Property, Plant and Equipment

Land is recorded at its appraised value on the date of transfer from the Government of Guam. Buildings and structures are stated at cost, which includes interest during the construction period. Equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 40 years for plant assets and equipment). Current policy is to capitalize items over \$1,000.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies, Continued

Summary of Significant Accounting Policies, Continued

Replacement Parts Inventories

Replacement parts inventories consist of spare parts and supplies stated at average cost and are charged to expense as used. Due to the nature and availability of parts necessary for operations, items which often are not used within one year are kept in inventory. Thus, replacement parts inventories are classified as non-current assets.

Annual Leave

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. Accumulation of such annual leave credits was limited to 480 hours at fiscal year end. All such annual leave credit is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave to 320 hours. Any annual leave earned in excess of 320 hours but not to exceed 100 hours as of February 28, 2003 shall be credited to the employee's sick leave. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (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. At the time of retirement or termination of service, that portion permitted to be credited to sick leave shall be so credited and the remainder of the excess leave, if any, shall be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

Risk Management

The Authority has commercial insurance coverage for directors' and officers' liability, comprehensive liability, employee dishonesty and forgery, money and securities loss, and automobile injury and property damage. Worker's compensation is managed through the local Department of Labor. The Authority also has commercial property insurance coverage for 100% of the total net book value of property, plant and equipment, subject to deductibles.

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 disclosure 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.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies, Continued

Summary of Significant Accounting Policies, Continued

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an Amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The provisions of this Statement are effective for periods beginning after June 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.



**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Notes to Financial Statements  
September 30, 2007 and 2006

(2) Property, Plant and Equipment

A schedule of the Authority's property, plant and equipment as of September 30, 2007 and 2006 is as follows:

|                                | <u>Beginning Balance</u><br><u>October 1, 2006</u> | <u>Transfers</u><br><u>and Additions</u> | <u>Transfers</u><br><u>and Deletions</u> | <u>Ending Balance</u><br><u>September 30, 2007</u> |
|--------------------------------|--|--|--|--|
| <u>Depreciable assets:</u>     |  |  |  |  |
| Buildings                      | \$ 65,267,660                                      | \$ 220,767                               | \$ -                                     | \$ 65,488,427                                      |
| Equipment                      | <u>19,606,897</u>                                  | <u>4,959,024</u>                         | <u>(3,701,336)</u>                       | <u>20,864,585</u>                                  |
|                                | 84,874,557   | 5,179,791                                | (3,701,336)                              | 86,353,012   |
| Less accumulated depreciation  | <u>(47,535,937)</u>                                | <u>(2,458,283)</u>                       | <u>3,562,282</u>                         | <u>(46,431,938)</u>                                |
|                                | <u>37,338,620</u>                                  | <u>2,721,508</u>                         | <u>(139,054)</u>                         | <u>39,921,074</u>                                  |
| <u>Non-depreciable assets:</u> |  |  |  |  |
| Land                           | 3,563,000  | -  | -  | 3,563,000  |
| Construction work in progress  | <u>1,661,316</u>                                   | <u>6,405,587</u>                         | <u>(4,492,604)</u>                       | <u>3,574,299</u>                                   |
|                                | <u>5,224,316</u>                                   | <u>6,405,587</u>                         | <u>(4,492,604)</u>                       | <u>7,137,299</u>                                   |
| Total                          | \$ <u>42,562,936</u>                               | \$ <u>9,127,095</u>                      | \$ <u>(4,631,658)</u>                    | \$ <u>47,058,373</u>                               |

|                                | <u>Beginning Balance</u><br><u>October 1, 2005</u> | <u>Transfers</u><br><u>and Additions</u> | <u>Transfers</u><br><u>and Deletions</u> | <u>Ending Balance</u><br><u>September 30, 2006</u> |
|--------------------------------|--|--|--|--|
| <u>Depreciable assets:</u>     |  |  |  |  |
| Buildings                      | \$ 63,292,341                                      | \$ 2,581,983                             | \$ (606,664)                             | \$ 65,267,660                                      |
| Equipment                      | <u>19,995,228</u>                                  | <u>104,000</u>                           | <u>(492,331)</u>                         | <u>19,606,897</u>                                  |
|                                | 83,287,569   | 2,685,983                                | (1,098,995)                              | 84,874,557   |
| Less accumulated depreciation  | <u>(46,065,599)</u>                                | <u>(2,468,866)</u>                       | <u>998,528</u>                           | <u>(47,535,937)</u>                                |
|                                | <u>37,221,970</u>                                  | <u>217,117</u>                           | <u>(100,467)</u>                         | <u>37,338,620</u>                                  |
| <u>Non-depreciable assets:</u> |  |  |  |  |
| Land                           | 3,563,000  | -  | -  | 3,563,000  |
| Construction work in progress  | <u>1,907,568</u>                                   | <u>3,003,137</u>                         | <u>(3,249,389)</u>                       | <u>1,661,316</u>                                   |
|                                | <u>5,470,568</u>                                   | <u>3,003,137</u>                         | <u>(3,249,389)</u>                       | <u>5,224,316</u>                                   |
| Total                          | \$ <u>42,692,538</u>                               | \$ <u>3,220,254</u>                      | \$ <u>(3,349,856)</u>                    | \$ <u>42,562,936</u>                               |

(3) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Notes to Financial Statements  
September 30, 2007 and 2006

(3) Deposits and Investments, Continued

Deposits

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

- Category 1 Deposits that are federally insured or collateralized with securities held by the Authority or its agent in the Authority's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Authority's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in the Authority's name. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2007 and 2006, the carrying amount of the Authority's total cash and cash equivalents and time certificates of deposit were \$14,264,572 and \$17,289,151, respectively, and the corresponding bank balances were \$14,262,972 and \$17,851,947, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits in the amount of \$500,000 were FDIC insured. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(4) Earthquake and Typhoon Damages

On October 13, 2001, an earthquake with a magnitude of 7.0 on the Richter scale struck Guam. Initial estimates of damage to the Authority's property, plant and equipment as a direct result of the earthquake, were approximately \$8 million, which has been received from insurance and recorded as accrued earthquake costs in the accompanying financial statements.

On July 5, 2002, Typhoon Chata'an struck Guam with destructive winds in excess of 110 miles per hour. On December 8, 2002, Supertyphoon Pongsona struck Guam with destructive winds of approximately 180 miles per hour. Damages for Typhoon Chata'an and Supertyphoon Pongsona were originally estimated at a total of \$5,775,000.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Notes to Financial Statements  
September 30, 2007 and 2006

(4) Earthquake and Typhoon Damages, Continued

During the year ended September 30, 2006, the Authority revised and reduced its estimates of the total earthquake damages by \$2,995,340 and total typhoon damages by \$218,247. These deductions are recorded as non-operating income in the accompanying financial statements.

Accrued typhoon and earthquake damages are recorded net of insurance and FEMA recoveries in the accompanying financial statements.

Recorded earthquake and typhoon damages and related recoveries are all estimated amounts. Final damages and insurance and FEMA recoveries may be materially different than estimated.

(5) Employees' Retirement Plan

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

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

As a result of actuarial valuations performed as of September 30, 2005, 2004 and 2003, contribution rates for the years ended September 30, 2007 and 2006 and 2005, respectively, have been determined as follows:

|  | <u>2007</u>   | <u>2006</u>   | <u>2005</u>   |
|--|---------------|---------------|---------------|
| Normal costs (% of DB Plan payroll)                    | 18.21%        | 17.83%        | 18.30%        |
| Employee contributions (DB Plan employees)             | <u>9.50%</u>  | <u>9.50%</u>  | <u>9.50%</u>  |
| Employer portion of normal cost (% of DB Plan payroll) | <u>8.71%</u>  | <u>8.33%</u>  | <u>8.80%</u>  |
| Employer portion of normal cost (% of total payroll)   | 4.26%         | 4.64%         | 4.96%         |
| Unfunded liability cost (% of total payroll)           | <u>20.66%</u> | <u>21.36%</u> | <u>19.93%</u> |
| Government contribution as a % of total payroll        | <u>24.92%</u> | <u>26.00%</u> | <u>24.89%</u> |

The statutory contribution as a % of DB payroll is as follows:

|          | <u>2007</u>   | <u>2006</u>   | <u>2005</u>   |
|----------|---------------|---------------|---------------|
| Employer | <u>22.94%</u> | <u>21.81%</u> | <u>20.81%</u> |
| Employee | <u>9.50%</u>  | <u>9.50%</u>  | <u>9.50%</u>  |

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions for the 2005, 2004 and 2003 actuarial valuations were:

|                                  |             |
|----------------------------------|-------------|
| Interest rate and rate of return | 7.0%        |
| Payroll growth                   | 3.5%        |
| Salary increases                 | 4.0% - 8.5% |

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Notes to Financial Statements  
September 30, 2007 and 2006

(5) Employees' Retirement Plan, Continued

The unfunded liability is being amortized as a level percentage of total payroll through May 1, 2031.

The actuarial valuations performed as of September 30, 2005, 2004 and 2003, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Authority as a separate sponsor, the accrued unfunded liability at September 30, 2007 and 2006 may be materially different than that recorded in the accompanying financial statements.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2007 and 2006 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual investment 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.

Retirement expense for the years ended September 30, 2007, 2006 and 2005 is as follows:

|   | <u>2007</u>         | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|---------------------|
| Cash contributions and accruals                               | \$ 2,495,504        | \$ 2,307,094        | \$ 2,149,300        |
| Increase in accrued unfunded liability to the retirement fund | <u>803,849</u>      | <u>1,172,426</u>    | <u>1,206,465</u>    |
|   | <u>\$ 3,299,353</u> | <u>\$ 3,479,520</u> | <u>\$ 3,355,765</u> |

The Government of Guam Retirement Fund issues annual financial reports that include its financial statements and required supplementary information. Reports may be obtained by writing to the Director of the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910.

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. The Authority has accrued an estimated liability of \$531,608 and \$462,097 at September 30, 2007 and 2006, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Notes to Financial Statements  
September 30, 2007 and 2006

**(6) Long Term Liabilities**

Long term liabilities of the Authority consist of annual leave and sick leave payable to its employees and its liability to the retirement fund. Changes in long-term liabilities for the years ended September 30, 2007 and 2006 are as follows:

|  | Outstanding at<br>September 30,<br><u>2006</u> | <u>Increases</u>  | <u>Decreases</u> | Outstanding at<br>September 30,<br><u>2007</u> | <u>Current</u>    | <u>Noncurrent</u>   |
|--|--|-------------------|------------------|--|-------------------|---------------------|
| Accrued annual leave                             | \$ 969,266                                     | \$ 53,487         | \$ -             | \$ 1,022,753                                   | \$ 696,348        | \$ 326,405          |
| Accrued unfunded liability<br>to retirement fund | 5,623,493                                      | 803,849           | -                | 6,427,342                                      | -                 | 6,427,342           |
| Accrued sick leave                               | <u>462,097</u>                                 | <u>69,511</u>     | <u>-</u>         | <u>531,608</u>                                 | <u>-</u>          | <u>531,608</u>      |
|  | <u>\$ 7,054,856</u>                            | <u>\$ 926,847</u> | <u>\$ -</u>      | <u>\$ 7,981,703</u>                            | <u>\$ 696,348</u> | <u>\$ 7,285,355</u> |

|  | Outstanding at<br>September 30,<br><u>2005</u> | <u>Increases</u>    | <u>Decreases</u> | Outstanding at<br>September 30,<br><u>2006</u> | <u>Current</u>    | <u>Noncurrent</u>   |
|--|--|---------------------|------------------|--|-------------------|---------------------|
| Accrued annual leave                             | \$ 905,373                                     | \$ 63,893           | \$ -             | \$ 969,266                                     | \$ 764,063        | \$ 205,203          |
| Accrued unfunded liability<br>to retirement fund | 4,451,067                                      | 1,172,426           | -                | 5,623,493                                      | -                 | 5,623,493           |
| Accrued sick leave                               | <u>415,103</u>                                 | <u>46,994</u>       | <u>-</u>         | <u>462,097</u>                                 | <u>-</u>          | <u>462,097</u>      |
|  | <u>\$ 5,771,543</u>                            | <u>\$ 1,283,313</u> | <u>\$ -</u>      | <u>\$ 7,054,856</u>                            | <u>\$ 764,063</u> | <u>\$ 6,290,793</u> |

**(7) Contingencies**

**Lawsuits and Claims**

As of September 30, 2007 and 2006, the Authority has been named as defendant in several pending lawsuits and claims. The amount of potential loss as a direct result of these lawsuits and claims cannot presently be determined. As such, no provision has been recorded in the accompanying financial statements for these contingencies. The Authority intends to vigorously defend itself against all legal actions.

**Government of Guam General Fund**

The Guam Legislature has enacted legislation that requires certain component units, including the Authority, to transfer certain amounts to the Government of Guam general fund on an annual basis. During the year ended September 30, 1994, the Authority transferred \$500,000 to the General Fund pursuant to such legislation. In addition, during the year ended September 30, 1997, the Authority transferred \$3,500,000 to the Government of Guam Autonomous Agency Infrastructure Collection Fund. The Governor of Guam and the board of directors, for the years ended September 30, 1987 through 1993, 1995, 1996 and 1998 through 2007, have not determined the Authority's allocated portions of these transfers. Accordingly, no liability for this contingency for those years has been recorded in the accompanying financial statements.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Notes to Financial Statements  
September 30, 2007 and 2006

**(8) Major Customers**

The Authority has five major shipping line customers that account for 84.17% and 84.9% of total operating revenues for the years ended September 30, 2007 and 2006, respectively. The Authority has a high concentration of credit risk due to the limited number of entities comprising its customer base.

**(9) Rental Operations**

The Authority, in cooperation with the Guam Economic Development and Commerce Authority (GEDCA), leases space to tenants under noncancelable operating leases, with options to renew, providing for future minimum rentals. The future minimum rental payments due from tenants under noncancelable operating leases in effect at September 30, 2007, are as follows:

| <u>Year Ending</u><br><u>September 30,</u> | <u>Authority</u><br><u>Share</u> | <u>GEDCA</u><br><u>Share</u> | <u>Total</u>        |
|--|----------------------------------|------------------------------|---------------------|
| 2008                                       | \$ 227,797                       | \$ 322,317                   | \$ 550,114          |
| 2009                                       | 496,395                          | 53,719                       | 550,114             |
| 2010                                       | 387,201                          | -                            | 387,201             |
| 2011                                       | 195,274                          | -                            | 195,274             |
| 2012                                       | 52,971                           | -                            | 52,971              |
| 2013                                       | <u>28,669</u>                    | <u>-</u>                     | <u>28,669</u>       |
|  | \$ <u>1,388,307</u>              | \$ <u>376,036</u>            | \$ <u>1,764,363</u> |

The Authority also leases equipment and space to tenants on a month to month basis. Total equipment and lease space revenue from tenants for all rentals is \$3,702,054 and \$3,413,322 respectively, for the years ended September 30, 2007 and 2006.

**(10) Supplemental/COLA Benefits**

As required by Public Law 27-106, the Authority must pay to the Government of Guam Retirement Fund certain supplemental benefits for retired employees. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered plan benefits. Supplemental/COLA benefits for the years ended September 30, 2007 and 2006 were \$1,139,971 and \$1,114,872, respectively.

**(11) Related Party Balances**

At September 30, 2007, the Authority had time certificates and deposits of \$1.6 million with a bank for which a current member of the Authority's board is a director.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Schedule 1  
Schedule of Expenses  
Years Ended September 30, 2007 and 2006

|                                     | 2007         | 2006         |
|-------------------------------------|--------------|--------------|
| Management and administration:      |              |              |
| Management:                         |              |              |
| Salaries and wages - regular        | \$ 160,113   | \$ 169,567   |
| Benefits - Government contribution  | 46,164       | 47,721       |
| Fringe benefits                     | 8,560        | 5,602        |
| Miscellaneous                       | 6,112        | 2,353        |
| Total Management                    | 220,949      | 225,243      |
| Administration:                     |              |              |
| Salaries and wages - regular        | 3,748,845    | 3,649,389    |
| Salaries and wages - overtime       | 72,114       | 41,570       |
| Salaries and wages - other          | 45,417       | 44,568       |
| Benefits - Government contribution  | 1,198,460    | 1,241,040    |
| Fringe benefits                     | 218,719      | 208,166      |
| Contractual                         | 79,703       | 83,742       |
| Travel and training                 | 66,948       | 63,211       |
| Repairs and maintenance             | 167,434      | 144,096      |
| Office supplies                     | 34,815       | 49,645       |
| Miscellaneous                       | 47,146       | 50,182       |
| Total Administration                | 5,679,601    | 5,575,609    |
| Total Management and Administration | \$ 5,900,550 | \$ 5,800,852 |
| Employees at end of year            | 110          | 108          |
| Equipment Maintenance:              |              |              |
| Salaries and wages - regular        | \$ 1,528,340 | \$ 1,403,926 |
| Salaries and wages - overtime       | 171,801      | 228,899      |
| Salaries and wages - other          | 106,967      | 88,633       |
| Benefits - Government contribution  | 504,974      | 512,630      |
| Fringe benefits                     | 100,184      | 95,149       |
| Parts, materials and supplies       | 1,637,876    | 1,382,893    |
| Repairs and maintenance             | 1,088,847    | 2,067,355    |
| Miscellaneous                       | 7,564        | 7,890        |
| Total Equipment Maintenance         | \$ 5,146,553 | \$ 5,787,375 |
| Employees at end of year            | 50           | 42           |

See accompanying independent auditors' report.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Schedule 1, Continued  
Schedule of Expenses, Continued  
Years Ended September 30, 2007 and 2006

|                                    | 2007         | 2006         |
|------------------------------------|--------------|--------------|
| Transportation Services:           |              |              |
| Salaries and wages - regular       | \$ 1,888,840 | \$ 1,854,313 |
| Salaries and wages - overtime      | 195,242      | 152,105      |
| Salaries and wages - other         | 100,297      | 118,898      |
| Benefits - Government contribution | 693,304      | 729,246      |
| Fringe benefits                    | 141,080      | 123,355      |
| Gas, oil and diesel                | 460,474      | 416,269      |
| Miscellaneous                      | 2,564        | 1,280        |
| Total Transportation Services      | \$ 3,481,801 | \$ 3,395,466 |
| Employees at end of year           | 59           | 59           |
| Stevedoring Services:              |              |              |
| Salaries and wages - regular       | \$ 1,468,048 | \$ 1,409,124 |
| Salaries and wages - overtime      | 243,153      | 221,171      |
| Salaries and wages - other         | 67,193       | 69,496       |
| Benefits - Government contribution | 477,314      | 498,876      |
| Fringe benefits                    | 102,932      | 104,920      |
| Miscellaneous                      | 12,150       | 1,050        |
| Total Stevedoring Services         | \$ 2,370,790 | \$ 2,304,637 |
| Employees at end of year           | 51           | 52           |
| Terminal Services:                 |              |              |
| Salaries and wages - regular       | \$ 913,940   | \$ 958,996   |
| Salaries and wages - overtime      | 92,089       | 79,989       |
| Salaries and wages - other         | 19,363       | 19,294       |
| Benefits - Government contribution | 321,625      | 364,430      |
| Fringe benefits                    | 42,099       | 51,420       |
| Miscellaneous                      | 7,149        | 10,711       |
| Total Terminal Services            | \$ 1,396,265 | \$ 1,484,840 |
| Employees at end of year           | 28           | 28           |
| Facility Maintenance:              |              |              |
| Salaries and wages - regular       | \$ 829,323   | \$ 765,900   |
| Salaries and wages - overtime      | 23,828       | 10,188       |
| Salaries and wages - other         | 10,823       | 10,093       |
| Benefits - Government contribution | 284,731      | 281,281      |
| Fringe benefits                    | 61,189       | 52,074       |
| Parts, materials and supplies      | 85,137       | 100,530      |
| Miscellaneous                      | 35,796       | 48,346       |
| Total Facility Maintenance         | \$ 1,330,827 | \$ 1,268,412 |
| Employees at end of year           | 27           | 25           |

See accompanying independent auditors' report.



**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Schedule 1, Continued  
Schedule of Expenses, Continued  
Years Ended September 30, 2007 and 2006

|   | 2007         | 2006       |
|---|--------------|------------|
| <b>General Expenses:</b>                |              |            |
| Workmen's compensation injury allowance | \$ 356,299   | \$ 105,895 |
| Professional services                   | 179,396      | 178,059    |
| Legal counsel                           | 174,923      | -          |
| Shell manager's fee                     | 127,870      | 145,259    |
| Waste removal                           | 54,449       | 55,442     |
| Port incentive award                    | 34,429       | 33,094     |
| Audit                                   | 30,000       | 27,000     |
| Agency fee                              | 14,615       | 29,985     |
| Board of Directors expense              | 4,300        | -          |
| Inventory loss                          | 2,403        | (2,453)    |
| Claims and damages                      | 2,000        | 12,168     |
| GEDA land lease fee                     | -            | 106,111    |
| Miscellaneous                           | 41,433       | 65,992     |
|   | \$ 1,022,117 | \$ 756,552 |

See accompanying independent auditors' report.

**PORT AUTHORITY OF GUAM**  
**(A Component Unit of the Government of Guam)**

Schedule 2  
Schedule of Salaries and Wages  
Years Ended September 30, 2007 and 2006

|                                    | <u>2007</u>          | <u>2006</u>          |
|------------------------------------|----------------------|----------------------|
| Salaries and wages - regular       | 10,537,449           | 10,211,215           |
| Salaries and wages - overtime      | 798,227              | 733,922              |
| Salaries and wages - other         | <u>350,060</u>       | <u>350,982</u>       |
|                                    | <u>\$ 11,685,736</u> | <u>\$ 11,296,119</u> |
| <br>Total employees at end of year | <br>325              | <br>314              |

See accompanying independent auditors' report.