

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

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2012 AND 2011

INDEPENDENT AUDITORS' REPORT

The 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, 2012, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year 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 audit. The financial statements of the Authority as of and for the year ended September 30, 2011 were audited by other auditors whose report, dated January 26, 2012, expressed an unqualified opinion.

We conducted our audit 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 assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses and summary of salaries and wages on pages 32 through 36 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The 2012 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 financial statements or to the 2012 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 schedules of operating expenses and summary of salaries and wages are fairly stated in all material respects in relation to the 2012 financial statements as a whole. The 2011 schedules of operating expenses, summary of salaries and wages, and employees by department were subjected to auditing procedures by other auditors whose report, dated January 26, 2012, referred to above, stated such schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The 2012 schedule of employees by department on page 37 is presented for the purpose of additional analysis and is not a required part of the 2012 basic financial statements. Such 2012 information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Deloitte + Touche LLP

February 15, 2013

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Management's Discussion and Analysis
September 30, 2012 and 2011

The following Management's Discussion and Analysis (MD&A) of the Port Authority of Guam (PAG, Port, Authority) provides an overview of the activities and financial performance for the fiscal years ended September 30, 2012 and 2011. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the accompanying notes which follow this section and are integral to the data contained in the financial statements.

ABOUT THE AUTHORITY

The Port Authority of Guam was established as a public corporation and an autonomous agency of the Government of Guam by Public Law 13-87 in October 1975. The Port 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 Port owns 5 cargo-handling piers along with two fuel piers and three marinas. The cost of 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 Port and the Authority's business affairs.

With over 90% of the region's goods and supplies passing through its doorways, the Port's impact on the quality and sustenance of life for residents of the region cannot be overstated. As Guam can only produce limited amounts of food and products on the island, the Port is truly the life link between the region and the rest of the world.

The Authority is dedicated to providing full services to ocean vessels in support of loading and unloading cargo from Guam and Micronesia. The Port Authority of Guam is the main lifeline of consumer goods into the island, and as such, recognizes its responsibility to deliver these goods in a timely manner. In support of this mission, the Port Authority also provides land and infrastructure to private interests to further develop the maritime industries on Guam. As a public corporation, the Authority dedicates all of its profits to the upgrading of equipment and facilities and the continued growth of the island's seaport.

FINANCIAL HIGHLIGHTS

- The net assets of the Authority as of September 30, 2012 are \$71.2 million. Of this amount, \$62.2 million is invested in capital assets and \$9.0 million is considered unrestricted.
- The Port's net assets increased by \$2.0 million for fiscal year ended September 30, 2012.
- The Port's total assets increased by \$1.4 million during the fiscal year ended September 30, 2012. The major component of this change was an increase in current assets by \$365 thousand and an increase in capital assets by \$1 million.
- The total liabilities decreased by \$636 thousand during fiscal year ended September 30, 2012. The major component of this change was due to decrease in accounts payable trade of \$605 thousand.

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- Since Fiscal Year 2003, the Port's finances have shown an increase in net assets for 10 straight years.

Overview of Financial Statements

The Authority's basic financial statements consist of the following: 1) statements of net assets, 2) statements of revenues, expenses, and changes in net assets, 3) statements of cash flows and 4) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.

The statements of net assets present 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 a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets present information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Analysis

The largest portion of the Authority's net assets (88%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets, and excluding any outstanding debt proceeds. The Authority uses these assets to provide services to its customers; consequently these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Authority's net assets represents resources that are unrestricted net assets which may be used to meet the Authority's ongoing obligations to employees and creditors.

A summarized comparison of the Port's assets, liabilities, and net assets at September 30 is as follows:

Condensed Statements of Net Assets

(In thousands)

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$16,350	\$15,983	\$14,439
Capital assets	<u>65,456</u>	<u>64,406</u>	<u>61,374</u>
Total assets	<u>\$81,806</u>	<u>\$80,389</u>	<u>\$75,813</u>

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Condensed Statements of Net Assets
(In thousands)

<u>LIABILITIES AND NET ASSETS</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current liabilities	\$ 5,982	\$ 6,445	\$ 7,884
Other non-current liabilities	<u>4,591</u>	<u>4,764</u>	<u>1,248</u>
Total liabilities	<u>10,573</u>	<u>11,209</u>	<u>9,132</u>
Net assets:			
Invested in capital assets	62,255	61,051	61,375
Unrestricted	<u>8,978</u>	<u>8,129</u>	<u>5,306</u>
Total net assets	<u>71,233</u>	<u>69,180</u>	<u>66,681</u>
Total liabilities and net assets	<u>\$ 81,806</u>	<u>\$80,389</u>	<u>\$75,813</u>

The Authority's total assets increased by \$1.4 million during the fiscal year ended September 30, 2012, from \$80.4 million in FY 2011 to \$81.8 million in FY 2012.

The increases were primarily due to the increases in the Port's current assets by \$365 thousand or 2% and property, plant and equipment by \$1 million or 2%. Total liabilities decreased by \$636 thousand or 6% from \$11.2 million in FY 2011 to \$10.6 million in FY2012. This was primarily due to the decrease in Port's current liabilities. The net assets increased by \$2 million during the fiscal year ended September 30, 2012. Net assets invested in capital assets net of related debt increased by \$1.2 million and unrestricted net assets increased by \$849 thousand.

Key elements of this increase are identified in the following schedule of changes in net assets and related explanations.

Revenues, Expenses, and Changes in Net Assets
(In thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues:			
Cargo throughput charges	\$ 23,785	\$ 23,605	\$ 24,281
Wharfage charges	4,089	3,939	4,131
Equipment and space rental	6,893	7,453	7,365
Special services	359	368	382
Other operating revenue	<u>121</u>	<u>485</u>	<u>397</u>
Total operating revenue	<u>35,247</u>	<u>35,850</u>	<u>36,556</u>
Operating expenses:			
Operations	9,205	9,191	8,014
Equipment maintenance	5,266	5,609	5,753
Facility maintenance	1,500	1,468	1,343
Management and administration	8,762	8,236	7,936
General expenses	<u>6,445</u>	<u>7,416</u>	<u>8,472</u>
Total operating expenses before depreciation	<u>31,178</u>	<u>31,920</u>	<u>31,518</u>

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Revenues, Expenses, and Changes in Net Assets, Continued
(In thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating income before depreciation	4,069	3,930	5,038
Depreciation	<u>3,720</u>	<u>3,351</u>	<u>2,808</u>
Operating income	349	579	2,230
Nonoperating expenses, net	<u>2,000</u>	<u>2,491</u>	<u>1,245</u>
(Loss) earnings before capital contributions	(1,651)	(1,912)	985
Capital contributions-US Government Grants	<u>3,703</u>	<u>4,413</u>	<u>6,077</u>
Increase in net assets	2,052	2,501	7,062
Net assets at beginning of the year	<u>69,181</u>	<u>66,680</u>	<u>59,618</u>
Net assets at end of year	\$ <u>71,233</u>	\$ <u>69,181</u>	\$ <u>66,680</u>

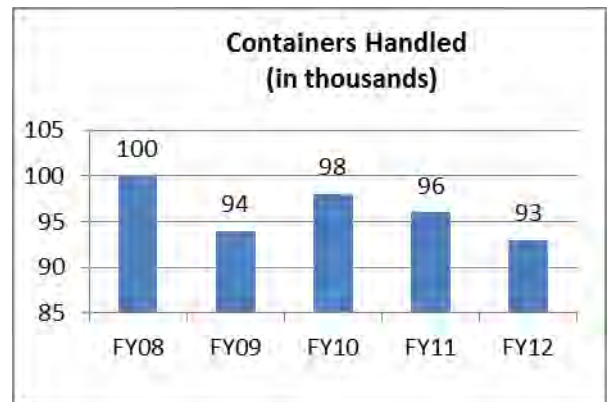
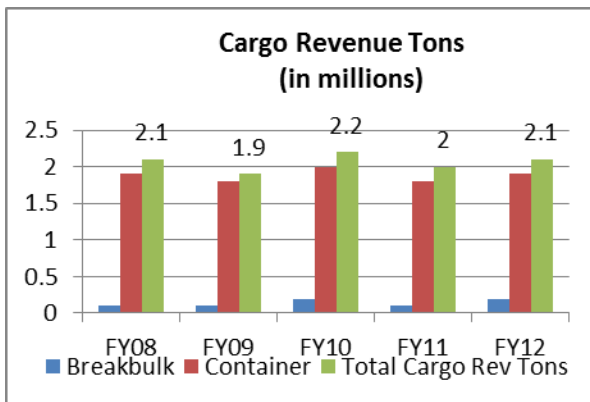
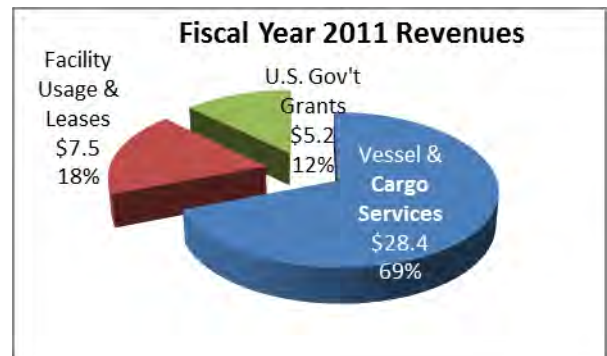
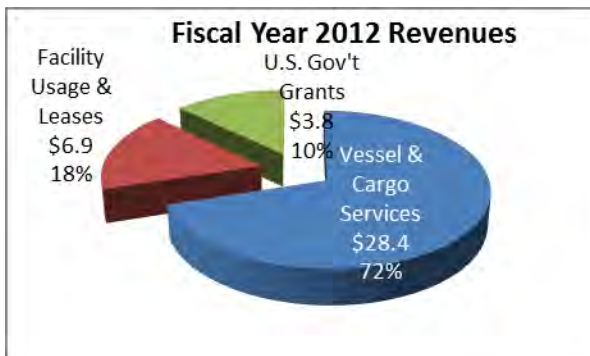
Revenues

- PAG Docket 11-1, Terminal Tariff #1 was approved by the PUC on January 11, 2012 and rates were implemented on March 1, 2012. The petition increased majority of the tariff rates by 3.95%.
- Vessel and cargo services revenues in FY2012 decreased by \$43 thousand. This was due to decreased total containers handled of 3 thousand or 3%, from 96 thousand containers in FY 2011 to 93 thousand containers in FY 2012. Due to the tariff increases, the impact on vessel and cargo revenues resulting from a decrease in the number of containers handled was minimal.
- Facility usage and leases decreased by 8% or \$560 thousand, from \$7.45 million in FY 2011 to \$6.89 million in FY 2012. FY 2011 facility revenue had a spike due to the fees adopted from appraisal reports which were retroactive to tenants (Mobil, Tristar, SPPC).
- Federal contributions in FY2012 decreased by \$1.3 million, from \$5.2 million in FY2011 to \$3.8 million in FY 2012.

Vessel and cargo services in FY 2011 decreased by 3% or \$.08 million compared to FY 2010 primarily due to decreases in non-containerized or break bulk cargos by 40% or \$660 thousand and a \$200 thousand decrease in container throughput revenues and \$200 thousand decrease in wharfage revenues. The cause of the decrease in container throughput was due to a 2% decrease in the total number of containers handled of 96 thousand containers in FY 2011.

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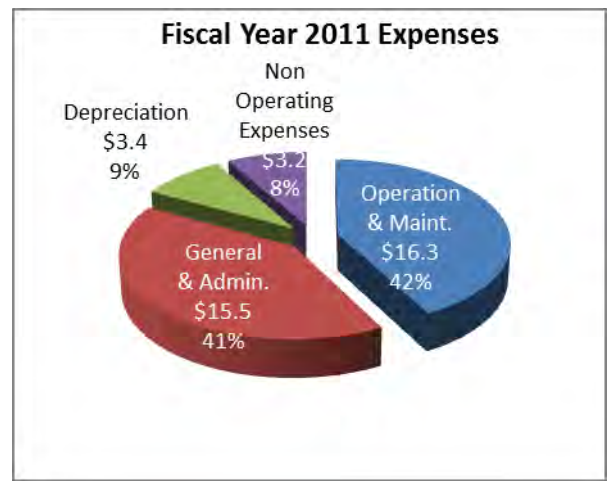
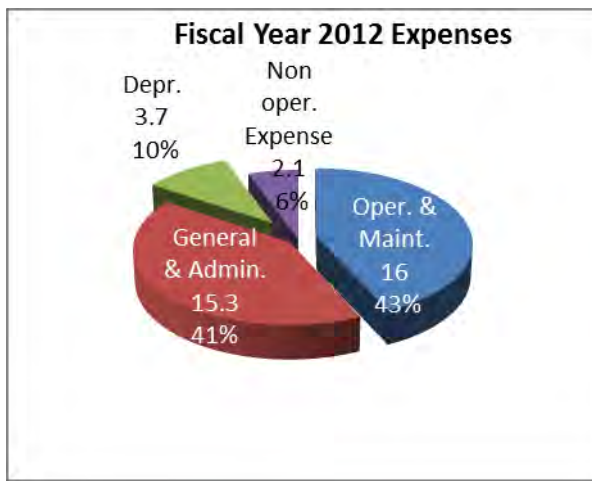
Expenses

In Fiscal Year 2012, the total operating expenses were \$34.9 million and non-operating expenses were \$2.1 million. Operating expense decreased by \$266 thousand and non-operating expenses decreased by \$1.1 million compared to fiscal year 2011. Operation and maintenance salaries and benefits increased due to 10 new employees hired during the fiscal year; however, the overall expense of operation and maintenance decreased by \$300 thousand as a result of reduced operational supplies. General and administrative expenses decreased by \$302 thousand due to decreases in professional services of 37%, other contractals of 27%, and supplies of 25%. Depreciation expense increased by \$369 thousand or 11% due to the reclassification of the completed construction in progress project on GDP renovation phase 1 and purchase of new assets in FY 2012.

In Fiscal Year 2011, the operations and maintenance expenses of the Port increased by \$1.2 million or 7% compared to FY 2010, due to increases in the salaries and benefits caused by annual employee increments, increase in fuel expenses by \$125 thousand and new employees hired in operations and facility maintenance divisions. General and administrative expenses in FY 2011 decreased by 5% or \$755 thousand primarily due to decreases in insurance and utility cost totaling \$750 thousand. Management and administration expenses increased by 4% or \$300 thousand due to salary and benefits annual increases and new employees hired in FY 2011. Depreciation expenses increased by 19% or \$543 thousand due to the reclassification of completed construction in progress projects on the Port's cargo handling equipment and purchase of new assets in FY 2011. Operating expenses in FY 2011 increased by 3% or \$946 thousand from \$34.3 million in FY 2010 to \$35.3 million in FY 2011.

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Port Modernization Plan

Overview

The Port Modernization Program, as authorized by the Guam Legislature, spans a 30-year planning horizon and is valued at a little more than \$260 million. Phase I-A and Phase I-B of the program focuses on near term critical maintenance and repair of waterfront activities and improvements needed to handle near-term cargo of the military buildup, and projected organic population increases. Phase II of the program will occur 20 years into the future and focuses on the expansion needed to address the cargo demands of the long-term growth of Guam and its neighboring islands.

The Authority is currently in Phase I-A of its Port Modernization Program. Phase I-A includes reconfiguration and expansion of the break-bulk laydown area, renovation of the CFS Building, creation of a new gate complex, and upgrade of utilities and security features, Phase I-A is to be funded by a \$50 million appropriation from the Department of Defense.

\$50 million appropriation from the Department of Defense

In June 2008, the Authority partnered with the Maritime Administration (MARAD), through a Memorandum of Understanding (MOU), for the “Port of Guam Improvement Enterprise Program” (the Program). MARAD was designated as the lead federal agency assisting the Port in securing funding sources to modernize its facilities and operations. Under the Program, MARAD’s role is to provide federal oversight and coordination of projects under the program, act as a central procurement organization, leverage federal, non-federal and private funding sources, and streamline the environmental review and permitting process. This partnership with MARAD was formalized through U.S. Public Law 110-417, National Defense Authorization Act for 2010. U.S. Public Law 110-417 also established the “Port of Guam Improvement Enterprise Fund” (the Fund) which is a separate account in the Treasury of the United States and will be used to receive funding from federal and non-federal sources to carry out the Program.

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In July 2010, the United States House of Representatives passed the 2010 Supplemental Appropriations Act which provided \$50 million for the Port Modernization Program. This bill was signed by President Barrack Obama in August 2010. The appropriation of \$50 million was transferred from the Department of Defense to the Fund on September 22, 2010. As set out in the MOU, the Fund will be administered and disbursed by MARAD, with the approval/authorization of the Authority.

\$54.5 million funding from the USDA

On October 22, 2010, the USDA awarded a \$54.5 million loan appropriation to the Authority to complete the funding of Phase I-A of the Port Modernization Program. This loan consists of the following:

- \$25 million USDA Community Facilities Direct Loan
- \$25 million USDA Community Facilities Guaranteed Loan with ANZ Guam, Inc. (ANZ)
- \$4.5 million USDA Guaranteed Term Loan with ANZ

On the same date, the Authority received the proceeds of the USDA Guaranteed Term Loan with ANZ of \$3,500,000.

USDA Rural Development Community Facility Loans

Presented below are the USDA Rural Development Community Facility (CF) Loan Commitments as of September 30, 2012, which are intended for the Authority's specific projects (i.e., purchase of a Gantry Crane, Port Modernization Plan and purchase of top lifters and other cargo handling equipment (TLOCHE)):

	<i>USDA Loan Commitments:</i>		<i>Intended for the following Projects:</i>		
	<u>Direct*</u>	<u>Guaranteed*</u>	<u>Gantry Cranes</u>	<u>Modernization</u>	<u>TLOCHE</u>
CF Loan 1	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -	\$ -
CF Loan 2	-	5,000,000	5,000,000	-	-
CF Loan 3	-	7,000,000	7,000,000	-	-
CF Loan 4	-	4,500,000	-	-	4,500,000
CF Loan 5	25,000,000	-	-	25,000,000	-
CF Loan 6	-	25,000,000	-	25,000,000	-
	<u>\$ 27,000,000</u>	<u>\$ 41,500,000</u>	<u>\$ 14,000,000</u>	<u>\$ 50,000,000</u>	<u>\$ 4,500,000</u>

*Proceeds of the CF Direct Loans will come from USDA, while the rest are from ANZ which is "Guaranteed" by the USDA; except for the \$1 million unused portion of CF Guaranteed Loan 4, which the Authority will issue a request for proposal by fiscal year 2013.

Of the above, CF Loan 4 (Guaranteed) of \$4,500,000 which is intended for the purchase of cargo handling equipment, was issued by ANZ through a guaranteed term loan agreement. During 2011, the Authority used \$3,500,000 of this loan, with \$1,000,000 unused as of September 30, 2012. The outstanding balance of this term loan as of September 30, 2012 amounts to \$3,201,009.

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CF Loans 4 (Guaranteed), 5 (Direct) and 6 (Guaranteed) totaling \$54.5 million pertains to the Port Modernization Plan as per Public Law 30-57. The Authority intends to first use the \$50 million appropriation from the Department of Defense and then the CF Loans 5 (Direct) and 6 (Guaranteed) totaling \$50 million (at \$25 million each) for its Port Modernization Plan. However, due to changes in certain factors relating to the military buildup and cargo forecast, management does not intend to utilize the \$25 million CF Loan 6 (Guaranteed), and on April 17, 2012, the Authority officially withdrew the loan application for the \$25M Guaranteed Loan.

On November 30, 2011, USDA communicated with the Authority that the \$25 million CF Loan 5 (Direct) is to be used within a reasonable amount of time after obligation. Given the current budget situation in the U.S. Congress, all loans that have been "obligated" but not yet closed and/or disbursed are facing increased scrutiny. USDA is encouraging the Authority to finalize their plans to use the proceeds from CF Loan 5 (Direct) by December 31, 2011. On December 20, 2011, the Authority requested the USDA to extend the CF Loan 5 (Direct). As of audit report date, the Authority is waiting for the approval of this request from USDA.

CF Loans 1 (Direct), 2 (Guaranteed) and 3 (Guaranteed) totaling \$14 million are intended for the procurement of gantry cranes pursuant to Public Law 30-100 which mandates the Authority to acquire at least two gantry cranes no later than December 31, 2012. On November 2011, Public Law 31-145 was enacted that authorized the Authority to enter into negotiations with Matson and Horizon for the specific purpose of acquiring one or more of the Port of Los Angeles (POLA) gantry cranes through purchase or lease-to-own

On June 5, 2012, the Port Board of Directors approved and ratified the purchase of the 3-POLA cranes and Gantry 3 for \$12 Million. On August 27, 2012, Public Utilities Commission (PUC) approved the Sales Agreement and Interim Maintenance Agreement related to the purchase of the POLA Cranes. Subsequently, PUC in their meeting of September 25, 2012, authorized the Authority to proceed with finalizing the loan documents with the financial institution. It is anticipated that the closing of the \$12M loan and official signing of the Sales Agreement for the purchase of the POLA will take place by December 2012 to ensure compliance with the statute. The Authority anticipates that the CF Loan 1 (Direct) for \$2M that is intended for the procurement of gantry crane will not be utilized.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Authority's investment in capital assets as of September 30, 2012, totaled \$65.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvement other than buildings, office and cargo handling equipments, inventory and construction-in-progress. The total net increase in the Authority's investment in capital assets for the current fiscal year was \$1 million or 2%.

Major capital asset activity during 2012 included the following:

- Building and wharf improvements increased by \$2.2 million due to the completion of GDP Renovation Phase I, Warehouse 1 upgrade of column spillings and F3 Waterpit waterline.
- Crane increased by \$418 thousand due to capital improvements for G3

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- Vehicles increased by \$72 thousand due to purchase of new Ford truck for Port Police.

See additional information on the Port's capital asset activity in fiscal years 2012 and 2011 in note 3 to the financial statements.

Debt

The Authority obtained a \$3.5 million loan from ANZ bank in October 2010 for the purchase of 4 brand new Hyster Top Lifters and 10 brand new Ottawa terminal yard tractors. At the end of 2012, the Authority had a total debt outstanding of \$3.2 million.

The financial covenant of the loan requires the following ratios:

- a) Interest Coverage Ratio: PAG shall maintain an Interest Coverage Ratio of 1.5 to 1, calculated as follows:

$$\frac{\text{Net Profit (Loss) Before Depreciation, Interest, Taxes and Amortization}}{\text{Total Interest Expense}}$$

- b) Debt Service Coverage Ratio: PAG shall maintain a Debt Service Coverage ratio of 1.30 to 1, calculated as follows:

$$\frac{\text{Net Profit (Loss) Before Depreciation, Interest, Taxes and Amortization}}{\text{Total Interest Expense} + \text{Principal Debt Reductions}}$$

The interest coverage ratio is 30.98 to 1 and the debt service coverage ratio is 16.52 to 1.

See additional information on the Port's debt in note 5 to the financial statements.

FISCAL YEAR 2013 OUTLOOK

The following are the courses of action that the Port aims to accomplish or complete in FY 2013:

Acquisition of Gantry Cranes

Following the Port Board of Directors' approval of the purchase of 3-POLA cranes and Gantry 3 from Matson & Horizon, Port management submitted to the Public Utilities Commission (PUC) a petition to approve the Sales Agreement and Interim Maintenance Agreement. In August 2012, the PUC approved the Sales and Interim Maintenance Agreements. The official signing of these Agreements for the Acquisition of the Gantry Cranes was completed on December 20, 2012.

Crane Surcharge Rate

In June 2012, the Port Board of Directors approved the proposed crane surcharge of up to \$125 for loaded containers and \$5.00 per tonnage for non-containerized cargos. In September 2012, the Authority submitted its Petition to the PUC to establish Crane Surcharge Rate related to the purchase, maintenance and use of the POLA gantry cranes. The approval and implementation of the crane surcharge fees was received in December 2012 and is effective January 2013 at \$105 per container. The fee increased to \$125 per container beginning March 2013.

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Performance Management Contract (PMC) for the Maintenance of Gantry Cranes

Pursuant to PL 31-145, the Authority is to acquire PMC for the performance, operation and maintenance of the acquired cranes. The Authority has begun the competitive solicitation of the PMC Services and is expected to make the contract award within the fiscal year 2013.

Port Security Grant Program (PSGP)

As part of the Security Grant Program of US Department of Homeland Security, the Authority was awarded over \$5 Million in federal security grants to help secure the commercial port. Through this program, the Authority proceeded with the following projects:

- Container Yard Lighting Project: The construction work to upgrade of the existing lights at the container yard was awarded in January 2012 and is expected to be completed in November 2013.
- Maritime and Security Operations Center and Integration of Communications Systems Project: The construction work to build a centralized emergency operations center, as well as, the integration of all communications and security systems was awarded in October 2012 with a projected completion date by December 2013.
- Procurement of Mobile Containerized X-Ray Screening System, 2-Emergency Backup Generators and Harbor Master's Communication System are other funded projects that are expected to be completed within fiscal year 2013.

Hagatna Marina Renovations

Through federal grant awards from the Department of the Interior/Office of Insular Affairs and USFW, the Gregorio D. Perez "Hagatna" Marina is undergoing several capital improvement projects. Subsequent to the project completion of the Hagatna Marina Renovation and Site Improvements-Phase I and Dock A repairs in 2012, the following projects are currently on going and are programmed to be completed within fiscal year 2013:

- GDP Waterline Replacement
- Dock C Replacement
- Dock B Repairs
- Dock A and B Pile Extensions
- Hagatna Marina Renovation and Site Improvement-Phase 2.

Agat Small Boat Marina Renovation

The Western Pacific Regional Fishery Management Council has recently awarded the Authority a \$250,000 federal grant to fund dock improvements at the Agat Small Boat Marina. The Authority has programmed to solicit and award this improvement project within fiscal year 2013.

Port Modernization Program (Guam Commercial Port Improvement Program)

As a result of the then planned US military relocation to Guam, the Port opted to update its Master Plan in 2007 as the framework of the Port Modernization Program. However, due to changing factors resulting from the reduction in the scope and timeline for the military buildup and corresponding impact on cargo forecasts, the Port Modernization Program was re-set and reconfigured to address organic growth. The Guam Commercial Port Improvement Program (GCP/IP) aims to expand its terminal yard operations area, upgrade its equipment and maintenance capabilities and improve its waterfront access. The GCP/IP-Phase IA are preliminary improvements to meet the minimum requirements of PL 29-125, the needs of the people of Guam, reduced relocation military troops and modernize critical facilities at the Commercial Port. Projects under the GCP/IP include the following:

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- Container Freight Station Building Renovation: The construction work has been awarded and is expected to be completed within fiscal year 2013.
- Selected Break Bulk Yard Modifications: The project is forecasted to be awarded by mid-2013
- Container Yard and Gate House Expansion Project is programmed for fiscal year 2014.

Replacement/Upgrade of Golf Pier Fuel Pipeline

The Replacement/Upgrade of the existing fuel lines at the Golf Pier is a joint project with the Department of Public Works. This project will be funded by the Federal Highway Administration (FHWA) and in part by the Port Authority of Guam. The design work for this project was commissioned by the Authority and has since been turned over to FHWA/DPW for bid packaging. The procurement for this construction work is expected to begin by March 2013 with project completion by year 2014.

Service Life Extension (SLE) Program

The SLE Program was developed to address unforeseen structural repair work at the Port's F-5 Wharf, upgrade of the existing Financial Management Systems and acquisition of cargo handling equipment. After obtaining approval from the Port's Board of Directors, the Authority engaged the Guam Economic Development Authority (GEDA) to begin soliciting the financing services on behalf of the Port to fund the SLE Program for \$10 Million. In September 2012, GEDA issued the solicitation package and is expected that the contract award will take place within January 2013. Upon obtaining approval of this loan, the following projects under the SLE Program are expected to begin:

- Construction Repairs to F5 Wharf
- Marine Repairs to Berths F3, F4, and F6
- Upgrade of JD Edwards Financial Management System
- Procurement of Cargo Handling Equipment

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

The Management's 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 Port's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in the Authority's report on the audit of financial statements which is dated January 26, 2012. That Discussion and Analysis explains in more detail major factors impacting the 2011 financial statements. A copy of that report can be obtained via the contact below.

For additional information about this report, please contact Joann B. Conway, Port Authority of Guam, 1026 Cabras Highway Suite 201, Piti, Guam 96915 or visit the website at www.portguam.com.

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Statements of Net Assets
September 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 10,886,253	\$ 10,710,367
Accounts receivable, net of allowance for doubtful accounts of \$971,565 in 2012 and \$1,141,114 in 2011	5,209,762	5,009,950
Prepaid expenses	<u>128,485</u>	<u>139,109</u>
Total current assets	16,224,500	15,859,426
Replacement parts inventories, net of allowance for obsolescence of \$76,304 in 2012 and \$113,243 in 2011	125,875	123,872
Depreciable property, plant and equipment, net	46,372,709	47,321,482
Nondepreciable property, plant and equipment	<u>19,083,165</u>	<u>17,084,899</u>
	<u>\$ 81,806,249</u>	<u>\$ 80,389,679</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Current portion of long-term bank debt	\$ 165,692	\$ 144,144
Accounts payable, trade and others	4,032,769	4,637,654
Security deposits and other payables	337,870	251,150
Accrued payroll and withholdings	321,687	344,201
Current portion of accrued annual leave	940,610	856,942
Deferred revenue	<u>183,361</u>	<u>210,463</u>
Total current liabilities	5,981,989	6,444,554
Long-term bank debt, net of current portion	3,035,317	3,210,951
Accrued annual leave, net of current portion	449,967	524,620
Accrued sick leave	<u>1,105,722</u>	<u>1,028,941</u>
Total liabilities	<u>10,572,995</u>	<u>11,209,066</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	62,254,865	61,051,286
Unrestricted	<u>8,978,389</u>	<u>8,129,327</u>
Total net assets	<u>71,233,254</u>	<u>69,180,613</u>
	<u>\$ 81,806,249</u>	<u>\$ 80,389,679</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Cargo throughput charges	\$ 23,784,571	\$ 23,604,599
Equipment and space rental	6,893,541	7,453,245
Wharfage charges	4,088,748	3,939,244
Special services	359,364	368,421
Other operating income	121,584	485,307
	35,247,808	35,850,816
Provision for bad debts	(17,707)	(126,301)
	35,230,101	35,724,515
Operating expenses:		
Management and administration	8,761,565	8,236,302
Equipment maintenance	5,266,400	5,609,224
Transportation services	4,210,757	4,371,798
Depreciation	3,719,994	3,350,881
Stevedoring services	3,054,227	2,974,329
General expenses	2,388,175	3,234,644
Utilities	2,204,216	2,215,178
Terminal services	1,940,149	1,844,832
Insurance	1,834,528	1,840,210
Facility maintenance	1,500,053	1,468,589
	34,880,064	35,145,987
Total operating expenses	34,880,064	35,145,987
Earnings from operations	350,037	578,528
Nonoperating (expenses) revenues:		
U.S. Government operating grants	127,500	738,354
Other income (expense), net	3,088	-
Contribution to Autonomous Agency Infrastructure Collection Fund	-	(700,000)
Loss from disposal of property, plant and equipment	(754)	(245,599)
Interest (expense) income, net	(51,173)	(62,588)
COLA/supplemental annuities	(2,079,067)	(2,221,807)
	(2,000,406)	(2,491,640)
Total nonoperating expenses, net	(2,000,406)	(2,491,640)
Loss before capital contributions	(1,650,369)	(1,913,112)
U.S. Government grants	3,703,010	4,413,323
Increase in net assets	2,052,641	2,500,211
Net assets at beginning of year	69,180,613	66,680,402
Net assets at end of year	\$ 71,233,254	\$ 69,180,613

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	\$ 35,003,187	\$ 37,186,572
Cash payments to suppliers for goods and services	(11,071,007)	(12,702,506)
Cash payments to employees for services and benefits	(22,614,392)	(23,164,719)
Net cash provided by operating activities	1,317,788	1,319,347
Cash flows from investing activity - interest received	138,047	140,322
Cash flows from capital and related financing activities:		
Capital grants received	3,703,010	5,151,677
Proceeds from long-term bank debt	-	3,500,000
Repayment of long-term bank debt	(154,086)	(144,905)
Interest paid	(189,220)	(202,910)
Purchase of property, plant and equipment	(4,770,241)	(6,628,151)
Net cash (used in) provided by capital and related financing activities	(1,410,537)	1,675,711
Cash flows from non-capital related financing activities:		
Operating grants received	127,500	-
Other non-capital activities	3,088	-
Cash provided by non-capital and related financing activities	130,588	-
Net increase in cash and cash equivalents	175,886	3,135,380
Cash and cash equivalents at beginning of year	10,710,367	7,574,987
Cash and cash equivalents at end of year	\$ 10,886,253	\$ 10,710,367

See accompanying notes to financial statements.

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Statements of Cash Flows, Continued
Years Ended September 30, 2012 and 2011

	2012	2011
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$ 350,037	\$ 578,528
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	3,719,994	3,350,881
Bad debts	17,707	126,301
Payments for COLA/supplemental annuities	(2,079,067)	(2,221,807)
Changes in operating assets and liabilities:		
Accounts receivable, net	(217,519)	1,588,461
Prepaid expenses	10,624	(139,109)
Replacement parts inventories, net	(2,003)	14,595
Accounts payable, trade and others	(604,885)	(1,852,662)
Security deposits and other payables	86,720	(193,767)
Accrued payroll and withholdings	(22,514)	(164,521)
Accrued annual leave	9,015	151,861
Deferred revenue	(27,102)	(58,938)
Accrued sick leave	76,781	139,524
Net cash provided by operating activities	\$ 1,317,788	\$ 1,319,347

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2012 and 2011

1. Organization and Summary of Significant Accounting Policies

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. The Guam Economic Development Authority (GEDA) has assigned the management of the thirty-two acre Cabras Industrial Park to the Authority.

On July 14, 2009, Public Law 30-52 was enacted into law placing the Authority under the oversight of the Public Utilities Commission of Guam (PUC). A comprehensive study of the Authority's tariff was performed in 2010 and the proposed rate increases were published in 2011. On January 11, 2012, the PUC approved the Authority's petition for tariff rate increases effective March 1, 2012. Because of the rate making process, certain differences may arise in the application of accounting principles generally accepted in the United States of America between regulated and non-regulated enterprises. Such differences mainly concern the time at which various items enter into the determination of net earnings in order to follow the principle of matching costs and revenues.

Basis of Accounting

The Authority utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The Authority has implemented GASB 20 and elected not to apply FASB Statements, Interpretations and Codification updates issued after November 30, 1989.

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Notes to Financial Statements
September 30, 2012 and 2011

1. Organization and Summary of Significant Accounting Policies, Continued

Operating and Non-operating Revenues and Expenses

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. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. Capital, grants, financing or investing related transactions are reported as non-operating revenues. All expenses related to operating the Authority are reported as operating expenses. COLA/supplemental annuities are reported as nonoperating expenses and revenues. Capital grants and other contributions from governmental agencies are recorded as net assets when earned. Operating grants are recorded as revenue when earned.

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.

The Authority does not have restricted net assets at September 30, 2012 and 2011.

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.

Cash and Cash Equivalents

For purposes of the statements of net assets and of cash flows, cash and cash equivalents is defined as cash on hand and deposits in banks and time certificates of deposit with initial maturities of three months or less.

Accounts Receivable and Allowance for Doubtful Accounts

Substantially all of the Authority's accounts receivable as of September 30, 2012 and 2011 are due from international steamship lines/agents which are located or operating on Guam.

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Notes to Financial Statements
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1. Organization and Summary of Significant Accounting Policies, Continued

Accounts Receivable and Allowance for Doubtful Accounts, Continued

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. As of September 30, 2012 and 2011, receivables that are more than ninety days past due totaled \$1,134,888 and \$1,230,434, respectively. 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 collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Uncollectible accounts are written-off against the allowance or are charged to expense in the period the Authority deemed the accounts to be uncollectible.

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, inventory includes items which often are not used within one year. Thus, replacement parts inventories are classified as non-current assets.

Property, Plant and Equipment and Depreciation

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 buildings and equipment). Current policy is to capitalize individual purchases over \$1,000 with useful lives exceeding one year. Normal maintenance and repairs are charged to operating expense as incurred; expenditures for major additions, improvements, infrastructure and replacements are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal with the resulting gain or loss credited or charged to nonoperating revenue/expense, respectively.

Compensated Absences

Compensated absences are recorded as a long-term liability in the statements of net assets. Estimated amounts to be paid during the next fiscal year are reported as current liabilities. Vacation pay is convertible to pay upon termination of employment.

In accordance with Public Law No. 27-5 and Public Law No. 28-68, employee 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; and
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.

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Notes to Financial Statements
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1. Organization and Summary of Significant Accounting Policies, Continued

Compensated Absences, Continued

The statutes further amended the maximum accumulation of such vacation credits from 480 to 320 hours. Public Law No. 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.

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.

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 under the Government of Guam Special Fund (Special Fund); however, the Authority reimburses the Special Fund for the costs of claims. The Authority also has commercial property insurance coverage for 100% of the total net book value of property, plant and equipment, subject to deductibles. The Authority incurred no losses in excess of insurance coverage during the years ended September 30, 2012, 2011 and 2010.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Taxes

As an instrumentality of GovGuam, the Authority and all property acquired by or for the Authority, and all revenues and income there from are exempt from taxation by GovGuam or by any political subdivision or public corporation thereof and from all taxes imposed under the authority of the Guam Legislature, or with respect to which the Guam Legislature is authorized to grant exemption.

New Accounting Standards

During the year ended September 30, 2012, the Authority implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

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Notes to Financial Statements
September 30, 2012 and 2011

1. Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

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Notes to Financial Statements
September 30, 2012 and 2011

1. Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.

Reclassifications

Certain reclassifications have been made to 2011 financial statements to correspond to the 2012 presentation.

2. Deposits

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.

GASB Statement No. 40 requires disclosures for 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 or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2012 and 2011, the carrying amount of the Authority's cash and cash equivalents totaled \$10,886,253 and \$10,710,367, respectively, and the corresponding bank balances were \$11,061,516 and \$10,438,823, respectively, all of which were maintained in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2012 and 2011, bank deposits in the amount of \$1,868,624 and \$1,087,214, respectively, 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.

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Notes to Financial Statements
September 30, 2012 and 2011

3. Property, Plant and Equipment

A summary of changes in property, plant and equipment for the years ended September 30, 2012 and 2011 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2011</u>	<u>Transfers</u> <u>and Additions</u>	<u>Transfers</u> <u>and Deletions</u>	<u>Ending Balance</u> <u>September 30, 2012</u>
<u>Depreciable:</u>				
Buildings	\$ 70,692,078	\$ 2,206,054	\$ -	\$ 72,898,132
Equipment	<u>28,174,492</u>	<u>572,048</u>	<u>(18,415)</u>	<u>28,728,125</u>
	98,866,570	2,778,102	(18,415)	101,626,257
Less accumulated depreciation	<u>(51,545,088)</u>	<u>(3,719,994)</u>	<u>11,534</u>	<u>(55,253,548)</u>
	<u>47,321,482</u>	<u>(941,892)</u>	<u>(6,881)</u>	<u>46,372,709</u>
<u>Non-depreciable:</u>				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	<u>13,521,899</u>	<u>4,735,138</u>	<u>(2,736,872)</u>	<u>15,520,165</u>
	<u>17,084,899</u>	<u>4,735,138</u>	<u>(2,736,872)</u>	<u>19,083,165</u>
Total	<u>\$ 64,406,381</u>	<u>\$ 3,793,246</u>	<u>\$ (2,743,753)</u>	<u>\$ 65,455,874</u>
	<u>Beginning Balance</u> <u>October 1, 2010</u>	<u>Transfers</u> <u>and Additions</u>	<u>Transfers</u> <u>and Deletions</u>	<u>Ending Balance</u> <u>September 30, 2011</u>
<u>Depreciable:</u>				
Buildings	\$ 70,502,621	\$ 189,457	\$ -	\$ 70,692,078
Equipment	<u>24,824,596</u>	<u>7,481,047</u>	<u>(4,131,151)</u>	<u>28,174,492</u>
	95,327,217	7,670,504	(4,131,151)	98,866,570
Less accumulated depreciation	<u>(52,097,070)</u>	<u>(3,350,881)</u>	<u>3,902,863</u>	<u>(51,545,088)</u>
	<u>43,230,147</u>	<u>4,319,623</u>	<u>(228,288)</u>	<u>47,321,482</u>
<u>Non-depreciable:</u>				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	<u>14,581,563</u>	<u>6,213,756</u>	<u>(7,273,420)</u>	<u>13,521,899</u>
	<u>18,144,563</u>	<u>6,213,756</u>	<u>(7,273,420)</u>	<u>17,084,899</u>
Total	<u>\$ 61,374,710</u>	<u>\$ 10,533,379</u>	<u>\$ (7,501,708)</u>	<u>\$ 64,406,381</u>

4. Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

The Authority participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing, multiple-employer defined benefit pension plan, administered by the GovGuam Retirement Fund (GGRF) to which all funds and agencies, including component units, as well as employees who are members of the DB Plan, contribute a fixed percentage of qualifying payroll. The DB Plan provides retirement, disability, and survivor benefits to members and beneficiaries who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature.

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4. Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

All new employees whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group. Membership in the DB Plan was mandatory for all full-time employees, except for those compensated on a fee basis, independent contractors, and persons aged 60 or over upon employment. Most employees may retire with full benefits at age 60 with at least 10 years of service, or after 25 years of service, regardless of age. Vesting of benefits is optional for employees with 3 to 19 years of service, but is mandatory for employees with 20 or more years of service.

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

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2010, 2009, and 2008, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2012, 2011 and 2010, respectively, have been determined as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal costs (% of DB Plan payroll)	17.07%	17.00%	18.34%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>7.57%</u>	<u>7.50%</u>	<u>8.84%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.03%	3.73%
Unfunded liability cost (% of total payroll)	<u>23.75%</u>	<u>21.75%</u>	<u>22.69%</u>
Government contribution as a % of total payroll	<u>26.78%</u>	<u>24.78%</u>	<u>26.42%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>28.30%</u>	<u>27.46%</u>	<u>26.04%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

The Authority's contribution to the DB Plan for the years ended September 30, 2012, 2011 and 2010 totaled \$1,482,141, \$1,489,052 and \$1,349,514, respectively, which are equal to the required contributions for those years.

Defined Contribution Retirement System (DCRS)

Contributions into the DCRS plan 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 accounts available under the DCRS.

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4. Employees' Retirement Plan, Continued

Defined Contribution Retirement System (DCRS), Continued

Statutory employer contributions for the DCRS plan for the years ended September 30, 2012 and 2011, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular 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 plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

The Authority's contributions for the DCRS plan payroll for the years ended September 30, 2012, 2011 and 2010 were \$3,111,487, \$2,821,611 and \$2,335,320, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$2,773,979, \$2,508,418 and \$2,103,696 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2012, 2011 and 2010, respectively.

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 \$1,105,722, \$1,028,941 and \$889,417 at September 30, 2012, 2011 and 2010, 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.

Other Post-Employment Benefits

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

For the years ended September 30, 2012, 2011 and 2010, the Authority reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Medical and dental	\$ 1,171,262	\$ 1,439,584	\$ 1,045,627
Supplemental benefits	861,201	727,658	1,952,134
Life insurance	<u>46,604</u>	<u>54,565</u>	<u>54,812</u>
	<u>\$ 2,079,067</u>	<u>\$ 2,221,807</u>	<u>\$ 3,052,573</u>

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5. Long-Term Liabilities

Summary

Long-term liabilities of the Authority consist of annual leave and sick leave payable to its employees and long-term bank debt. Changes in long-term liabilities for the years ended September 30, 2012 and 2011 are as follows:

	Outstanding at September 30, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding at September 30, <u>2012</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued annual leave	\$1,381,562	\$1,053,249	\$1,044,234	\$1,390,577	\$ 940,610	\$ 449,967
Accrued sick leave	1,028,941	76,781	-	1,105,722	-	1,105,722
Long-term bank debt	<u>3,355,095</u>	<u>-</u>	<u>154,086</u>	<u>3,201,009</u>	<u>165,692</u>	<u>3,035,317</u>
	<u>\$5,765,598</u>	<u>\$1,130,030</u>	<u>\$1,198,320</u>	<u>\$5,697,308</u>	<u>\$1,106,302</u>	<u>\$4,591,006</u>

	Outstanding at September 30, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding at September 30, <u>2011</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued annual leave	\$1,229,701	\$1,057,777	\$ 905,916	\$1,381,562	\$ 856,942	\$ 524,620
Accrued sick leave	889,417	139,524	-	1,028,941	-	1,028,941
Long-term bank debt	<u>-</u>	<u>3,500,000</u>	<u>144,905</u>	<u>3,355,095</u>	<u>144,144</u>	<u>3,210,951</u>
	<u>\$2,119,118</u>	<u>\$4,697,301</u>	<u>\$1,050,821</u>	<u>\$5,765,598</u>	<u>\$1,001,086</u>	<u>\$4,764,512</u>

Long-term Bank Debt

Long-term debt pertains to a \$3,500,000 loan obtained from ANZ Guam, Inc. (ANZ) on October 22, 2010, representing a portion of the \$4,500,000 United States Department of Agriculture (USDA) Guaranteed Term Loan. The remainder of the USDA guaranteed loan is unused as of September 30, 2012. The term loan bears interest at 3% above the Federal Home Loan Bank of Seattle's 15-year amortizing fixed advanced rate at the time of funding (6.18% at September 30, 2012 and 2011) and is payable in monthly installments of \$30,049 in principal and interest over fifteen years. Proceeds of the loan were used to reimburse the Authority for the acquisition of four top lifters and ten terminal yard contractors which are also pledged as collateral for the loan.

As of September 30, 2012, future maturities of long-term bank debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2013	\$ 165,692	\$ 195,857	\$ 361,549
2014	175,348	185,234	360,582
2015	186,660	173,925	360,585
2016	198,238	162,347	360,585
2017	211,481	149,104	360,585
2018 through 2022	1,305,084	527,890	1,832,974
2022 through 2025	<u>958,506</u>	<u>92,969</u>	<u>1,051,475</u>
	<u>\$ 3,201,009</u>	<u>\$ 1,487,326</u>	<u>\$ 4,688,335</u>

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6. Major Customers

The Authority has two and five major shipping agency customers that collectively account for 67.41% and 84.24%, respectively, of total operating revenues for the years ended September 30, 2012 and 2011, respectively. The Authority has a high concentration of credit risk due to the limited number of entities comprising its customer base. In November 2011, one of the Authority's major customers, Horizon Lines, Inc., discontinued its Five Star Express trans-Pacific container shipping service between the U.S. West Coast, Guam and China.

7. Rental Operations

The Authority, in cooperation with the GEDA, leases space to tenants under noncancelable operating leases, with options to renew, providing for future minimum rentals. The minimum future rental on noncancelable operating leases for the five succeeding fiscal years and thereafter, are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2013	\$ 756,709
2014	756,709
2015	756,709
2016	756,709
2017	756,709
Thereafter	<u>4,565,549</u>
	<u>\$ 8,349,094</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 totaled \$6,893,541 and \$7,453,245 respectively, for the years ended September 30, 2012 and 2011, respectively.

8. Commitments and Contingencies

Port Modernization Plan

The Port Modernization Plan (the Plan) spans a 30-year planning horizon with an estimated project cost of \$260 million and was conditionally approved in 2008 through Public Law 29-125. The Plan consists of Phases I-A and I-B with a focus on critical maintenance and repair of waterfront activities over the next five years and Phase II with a focus on expansion needed to address long-term cargo growth demands of Guam and neighboring islands over the next twenty years. In 2009, the Guam Legislature approved Phases I-A and I-B of the Plan through Public Law 30-57.

In June 2008, through a Memorandum of Understanding (MOU), the Authority partnered with the Maritime Administration (MARAD) for the "Port of Guam Improvement Enterprise Program" (the Program). MARAD was designated as the lead federal agency assisting the Authority in securing funding sources to modernize its facilities and operations. Under the Program, MARAD is to provide federal oversight and coordination of projects, act as a central procurement organization, leverage federal, non-federal and private funding sources, and streamline the environmental review and permitting process. The partnership with MARAD was formalized through U.S. Public Law 110-417, *National Defense Authorization Act for 2010*. U.S. Public Law 110-417 also established the "Port of Guam Improvement Enterprise Fund" (the Fund), a separate account in the Treasury of the United States that will be used to receive funding from federal and non-federal sources to carry out the Program.

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8. Commitments and Contingencies, Continued

Port Modernization Plan, Continued

The Authority commenced with the Phase I-A of the Plan in 2010 and is to be funded by the following:

Appropriation from the U.S. Department of Defense (USDOD)	\$ 50,000,000
Appropriations from the USDA:	
Direct loans	25,000,000
Community Facilities Guaranteed Loan with ANZ	25,000,000
Guaranteed term loan with ANZ	<u>4,500,000</u>
	\$ <u>104,500,000</u>

The appropriation from the USDOD is sourced from the 2010 U.S. Supplemental Appropriations Act that was signed into law in August 2010. The appropriation was transferred to the Fund on September 22, 2010 and will be administered and disbursed by MARAD based on the terms of the MOU, however, with the approval and authorization of the Authority. The Authority intends to first utilize this appropriation before drawing down on the \$25,000,000 USDA appropriations.

The appropriations from USDA were awarded on October 22, 2010. On the same date, the Authority received \$3,500,000 of the guaranteed term loan with ANZ (see note 5). The remaining \$1,000,000 guaranteed term loan is unused as of September 30, 2012. The Authority plans to issue a request for proposal in FY2013 for the utilization of the unused portion.

In 2011, due to changes in certain factors relating to the military buildup and cargo forecast, management no longer intends to utilize the \$25,000,000 Community Facilities Guaranteed Loan with ANZ and has formally withdrawn the loan application on April 17, 2012. Also, USDA communicated with the Authority that the \$25,000,000 direct loan is to be used within a reasonable amount of time after obligation and encouraged the Authority to finalize their plans of loan utilization. Given the current budget situation in the U.S. Congress, all loans that have been obligated but not yet closed and disbursed are facing increased scrutiny. On December 20, 2011, the Authority requested the USDA to extend the direct loan. As of the audit report date, the Authority has not received the approval from USDA.

At September 30, 2012, the Authority has \$13.8 million recorded in construction work in progress for the Port Modernization Plan. Realization of these assets is dependent on future events, including continuation of the Plan as currently envisioned.

USDA Community Facility Loans

In 2010, USDA also awarded a \$2,000,000 direct loan and \$12,000,000 of guaranteed loans intended for the purchase of gantry cranes pursuant to Public Law 30-100 which mandates the Authority to acquire at least two gantry cranes no later than December 31, 2012. In November 2011, Public Law 31-145 was enacted authorizing the Authority to enter into negotiations with Matson and Horizon for the specific purpose of acquiring one or more refurbished gantry cranes through purchase or lease-to-own. On August 27, 2012, the PUC approved the Sales Agreement and Interim Maintenance Agreement related to the purchase of the refurbished cranes. Further, on September 25, 2012, the PUC authorized the Authority to proceed with finalizing the loan documents with ANZ for a \$12,000,000 loan which is guaranteed by USDA. The Authority anticipates that it will no longer utilize the \$2,000,000 direct loan from USDA.

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Notes to Financial Statements
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8. Commitments and Contingencies, Continued

Government of Guam General Fund

In March 2011, the Authority received a \$12,250,000 invoice from the Government of Guam's Department of Administration (DOA) representing an annual assessment of \$875,000 for each of the fiscal years 1998 to 2011 pursuant to 5 GCA Chapter 22 Section 22421, *Transfer of Autonomous Agency Revenues To Autonomous Agency Collections Fund*. In May 2011, the Authority responded to DOA requesting a further review of the assessment as the Authority believes that it does not owe DOA the entire \$12,250,000 based on previous funds transferred in 1994 and 1997 of \$500,000 and \$3,500,000 to the General fund and to the Government of Guam Autonomous Agency Infrastructure Collection Fund (AAICF), respectively. The Authority also asserts that it funds certain government services provided by the Guam Customs and Quarantine Agency, Guam Environment and Protection Agency, Guam Police Department and Guam Fire Department through ongoing operations at Port; contributes to GEDA and Port's Base Realignment and Closure Commission; and, will fund the Tri-Star Pipeline and water line projects in the future. Further, the Authority understands that it is only required to transfer amounts to the AAICF when there is an operating surplus.

In September 2011, the Authority accrued \$700,000 representing its liability towards the AAICF funding based on its interpretation of the law. The amount is included in accounts payable, trade and others in the accompanying statements of net assets as of September 30, 2012 and 2011.

Lawsuit and Claims

The Authority is a defendant in various lawsuits and proceedings arising in the normal course of business. While the outcome of these lawsuits and proceedings cannot be predicted with certainty and could have a material adverse effect on the Authority's financial statements, it is the opinion of management, after consulting with its legal counsel, that the ultimate disposition of such suits and proceedings will not have a material adverse effect on the Authority's financial statements.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. The Authority has not assessed the impact of the requirements of the law as of September 30, 2012 and 2011. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

9. Subsequent Events

On December 20, 2012, the Authority signed an agreement with Matson for the \$12 million purchase of four cranes. A loan equal to the purchase cost was obtained from ANZ as part of the Port Modernization Plan Funding Source as discussed in note 8.

OTHER FINANCIAL INFORMATION

PORT AUTHORITY OF GUAM
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Details of Operating Expenses
Years Ended September 30, 2012 and 2011

	2012	2011
Management and administration:		
<i>Management:</i>		
Salaries and wages - regular	\$ 332,304	\$ 237,072
Benefits - Government contribution	104,484	71,073
Annual leave	21,854	12,478
Fringe benefits	9,893	8,499
Office supplies	1,763	2,133
Furnishings and equipment	149	1,962
Miscellaneous	14,701	22,768
Total management	485,148	355,985
<i>Administration:</i>		
Salaries and wages - regular	5,196,957	4,974,332
Benefits - Government contribution	1,677,026	1,538,060
Annual leave	405,284	391,834
Fringe benefits	300,579	319,710
Repairs and maintenance	168,260	169,143
Salaries and wages - overtime	150,064	112,746
Salaries and wages - other	53,112	55,543
Furnishings and equipment	39,308	30,055
Office supplies	27,967	31,371
Operational supplies	17,457	26,398
Miscellaneous	240,403	231,125
Total administration	8,276,417	7,880,317
Total management and administration	\$ 8,761,565	\$ 8,236,302

See accompanying Independent Auditors' report.

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Details of Operating Expenses, Continued
Years Ended September 30, 2012 and 2011

	2012	2011
Equipment Maintenance:		
Salaries and wages - regular	\$ 2,036,291	\$ 1,981,044
Repairs and maintenance	1,505,005	1,568,612
Benefits - Government contribution	698,614	659,839
Operational supplies	346,744	608,847
Salaries and wages - other	167,113	197,090
Annual leave	158,222	147,120
Fringe benefits	156,898	170,183
Salaries and wages - overtime	108,291	190,304
Contractual	82,348	53,206
Furnishings and equipment	4,644	31,506
Office supplies	2,230	1,473
	<u>\$ 5,266,400</u>	<u>\$ 5,609,224</u>
Total equipment maintenance	<u>\$ 5,266,400</u>	<u>\$ 5,609,224</u>
 Transportation Services:		
Salaries and wages - regular	\$ 2,292,477	\$ 2,352,393
Benefits - Government contribution	786,850	780,862
Gas, oil and diesel	490,954	559,429
Fringe benefits	185,770	203,314
Annual leave	182,162	187,196
Salaries and wages - overtime	146,653	158,404
Salaries and wages - other	122,621	127,702
Furnishings and equipment	1,591	313
Operational supplies	1,047	1,324
Office supplies	632	861
	<u>\$ 4,210,757</u>	<u>\$ 4,371,798</u>
Total transportation services	<u>\$ 4,210,757</u>	<u>\$ 4,371,798</u>

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Details of Operating Expenses, Continued
Years Ended September 30, 2012 and 2011

	2012	2011
Stevedoring Services:		
Salaries and wages - regular	\$ 1,896,230	\$ 1,823,300
Benefits - Government contribution	618,222	596,122
Salaries and wages - overtime	141,232	167,483
Fringe benefits	138,688	133,972
Annual leave	130,982	128,843
Salaries and wages - other	114,097	119,806
Operational supplies	13,736	3,022
Office supplies	1,040	1,781
Total stevedoring services	\$ 3,054,227	\$ 2,974,329
 Facility Maintenance:		
Salaries and wages - regular	\$ 869,283	\$ 893,115
Benefits - Government contribution	300,704	286,360
Operational supplies	101,068	100,933
Annual leave	71,769	73,797
Salaries and wages - overtime	67,015	21,193
Fringe benefits	65,700	64,194
Salaries and wages - other	14,331	20,173
Furnishings and equipment	7,453	1,257
Office supplies	185	499
Miscellaneous	2,545	7,068
Total facility maintenance	\$ 1,500,053	\$ 1,468,589

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Details of Operating Expenses, Continued
Years Ended September 30, 2012 and 2011

	2012	2011
Terminal Services:		
Salaries and wages - regular	\$ 1,254,532	\$ 1,197,439
Benefits - Government contribution	407,728	378,347
Fringe benefits	98,207	104,786
Annual leave	83,730	79,325
Salaries and wages - overtime	50,891	33,630
Salaries and wages - other	35,750	35,291
Office supplies	8,611	12,264
Furnishings and equipment	-	3,606
Operational supplies	700	144
	<u>\$ 1,940,149</u>	<u>\$ 1,844,832</u>
Total terminal services		
 General Expenses:		
Professional services	\$ 1,043,043	\$ 1,702,934
Legal counsel	299,222	445,854
Managers' fee	411,862	407,969
Waste removal	144,740	129,138
Workmen's compensation injury allowance	66,056	106,701
Maintenance	97,455	89,255
Audit	43,523	47,158
Port incentive award	42,866	35,802
Agency fee	38,683	30,087
Claims and damages	31,253	31,282
Inventory adjustment	7,780	(8,973)
Board of Directors expense	6,751	3,761
Miscellaneous	154,941	213,676
	<u>\$ 2,388,175</u>	<u>\$ 3,234,644</u>
Total general expenses		

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Summary of Salaries and Wages
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries and wages - regular	\$ 13,878,074	\$ 13,458,695
Benefits - Government contribution	4,593,628	4,310,663
Fringe benefits	955,735	1,004,658
Salaries and wages - overtime	664,146	683,760
Salaries and wages - other	<u>507,024</u>	<u>555,605</u>
	<u>\$ 20,598,607</u>	<u>\$ 20,013,381</u>

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Employees by Department
Years Ended September 30, 2012 and 2011

Department:	<u>2012</u>	<u>2011</u>
Management and administration	125	129
Equipment maintenance	53	60
Transportation services	65	63
Stevedoring services	57	52
Facility maintenance	24	24
Terminal services	<u>37</u>	<u>36</u>
	<u><u>361</u></u>	<u><u>364</u></u>

See accompanying Independent Auditors' report.