

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

FINANCIAL STATEMENTS, ADDITIONAL
INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Port Authority of Guam:

Report on Financial Statements

We have audited the accompanying financial statements of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2021 and 2020, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 12 to the financial statements, the Authority determined that the COVID-19 pandemic may have negatively impact its business, results of operations and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 11 to the financial statements, the 2020 financial statements have been restated to correct an error in capitalized interest.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 19 as well as the Schedules of Proportional Share of the Net Pension Liability on pages 56 through 58, the Schedule of Pension Contributions on page 59, the Schedule of Changes in the Proportional Share of the Total OPEB Liability and Related Ratios on page 60, the Schedule of Proportional Share of the Total OPEB Liability on page 61, and the Schedule of OPEB Contributions on page 62 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of details of operating expenses and the summary of salaries and wages on pages 63 through 67 are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of details of operating expenses and the summary of salaries and wages are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of details of operating expenses and the summary of salaries and wages are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Matters, Continued

Other Financial Information, Continued

The schedule of employees by department on page 68 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2022 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Deloitte & Touche LLP

April 21, 2022

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Management's Discussion and Analysis
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The Port Authority of Guam's (PAG, Port, Authority) Management Discussion and Analysis (MD&A) provides an overview of the financial performance and activities for the fiscal years (FY) ended September 30, 2021, and 2020. The information in this MD&A has been prepared by management and is integral to the data in the financial statements, which follow this section. It should be considered in conjunction with the financial statements and the accompanying notes.

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. Port operates the only commercial seaport in the Territory of Guam and is the primary seaport in Micronesia. It serves the largest U.S. deep-water port in the region and currently handles about 1 - 2 million tons of cargo a year. Port owns five cargo-handling piers along with two fuel piers and three marinas. The cost of operations and capital improvements are funded largely from Port's own revenues.

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

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

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

Our objective is to modernize Port as a first-class facility in the region, providing cargo-handling services safely, efficiently, and sustainably. To achieve this, Port must increase capacity, execute infrastructure development, expand to meet the community's organic growth and the impending military buildup, promote economic growth and opportunities for maritime-related industries, and address the needs of Port users.

FY 2021 FINANCIAL HIGHLIGHTS

- Current assets exceeded current liabilities by \$67.6 million (M).
- As of FY 2021, current assets amounted to \$75.4M, a \$3.0M increase. Current assets increased largely due to the net \$2.6M increase in current cash and cash equivalents and a \$648 thousand (K) increase in accounts receivable.
- Capital assets, net of accumulated depreciation of \$79.7M, amounted to \$116.9M.
- As of September 30, 2021, the Net position was \$13.8M, a \$2.2M decrease from FY 2020. Of this amount, -\$132.5M is unrestricted, \$92.6M is a net investment in capital assets, and \$53.7M is considered restricted.

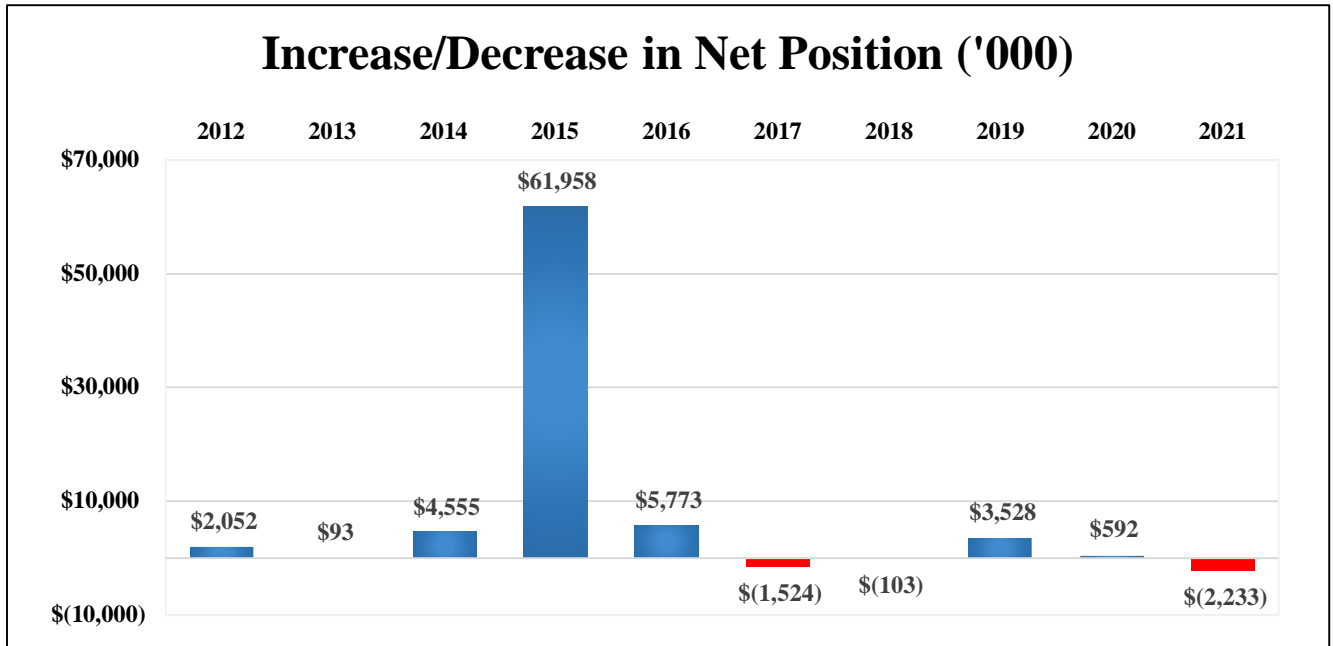
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- Total liabilities increased by \$2.2M (or less than 1%), despite a \$3.2M decrease in current liabilities and a \$2.8M decrease in net long-term debt in FY 2021. The main reasons for the overall rise were the FY 2021 increases in other post-employment benefits (OPEB) liability by \$5.1M (or 5.5%) and in net pension liability by \$2.6M (or 4.1%).
- Operating revenues increased by \$432K, from \$54.7M in FY 2020 to \$55.1M in FY 2021. Despite the struggles brought about by the COVID-19 pandemic on Port's resources and personnel, the total containers that Port handled in FY 2021 was 1.9% higher than last year. This resulted in revenue increases of cargo throughput charges by \$956K, crane surcharge by \$172K, and wharfage charges by \$160K.
- Operating expenses increased by \$2.6M (or 4.6%) from \$55.7M in FY 2020 to \$58.3M in FY 2021. The overall increase in operating expenses is largely due to \$5.3M in OPEB expenses and \$1.3M in pension expenses for FY 2021.
- Before depreciation (a non-cash expense), net operating revenues minus operating expenses resulted in a \$3.1M operating income for FY 2021.
- After including the \$6.3M non-cash expense of depreciation, \$754K of net non-operating revenues, and \$219K of U.S. Government capital grants, Port concluded FY 2021 with a \$2.2M decrease in net position.
- Port's net position at the end of FY 2021 was \$13.8M, which is a \$2.2M decrease from the FY 2020's restated \$16.0M net position. The FY 2020 financial statements were restated to account for \$1.5M of capitalized interest on in-progress capital improvement projects.
- In a separate report, the independent financial auditors issued an unmodified (clean) opinion on Port's FY 2021 financial statements, and found no material weakness or significant deficiency in Port's internal control over financial reporting. Additionally, the independent financial auditors issued a clean opinion on Port's FY 2021 compliance over major federal programs, and found no material weakness or significant deficiency in Port's internal control over major federal programs. The auditors also concluded that Port qualified as low-risk auditee.

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Overview of Financial Statements

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

The statement of net position is a snapshot presentation of all of Port's assets, liabilities, deferred outflows, and deferred inflows of resources – with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether Port's financial position improves or declines.

The statement of revenues, expenses, and changes in net position provides insight into how Port's net position changed during the fiscal year. All changes in net position are recorded as soon as the transaction occurs, regardless of the timing of the related cash flows. As such, the revenues and expenses reported in this statement include some items for which the corresponding cash receipt or cash payment will occur in future fiscal periods.

Authority Activities and Highlights

FY 2021 Cargo Operations Results

The main basis for gauging the annual revenue status of Port is through the number of cargos it handles each year. The main classifications of cargos are container and non-container (breakbulk) cargos. Container cargos are further broken down into local or transshipment categories. Local containers contain goods destined specifically for Guam's economy. The majority of exports for local cargos are empty containers. Transshipment containers are unloaded at Port. After a temporary stage in the yard, they are transferred to another vessel to be transported to the final port of discharge. These transit containers typically arrive in Port from the U.S. or Asia. They are then transferred to smaller ports in the Commonwealth of the Northern Mariana Islands (CNMI), the Republic of Palau, the Federated States of Micronesia (FSM), and the Republic of the Marshall Islands (RMI). Transshipment containers (mostly

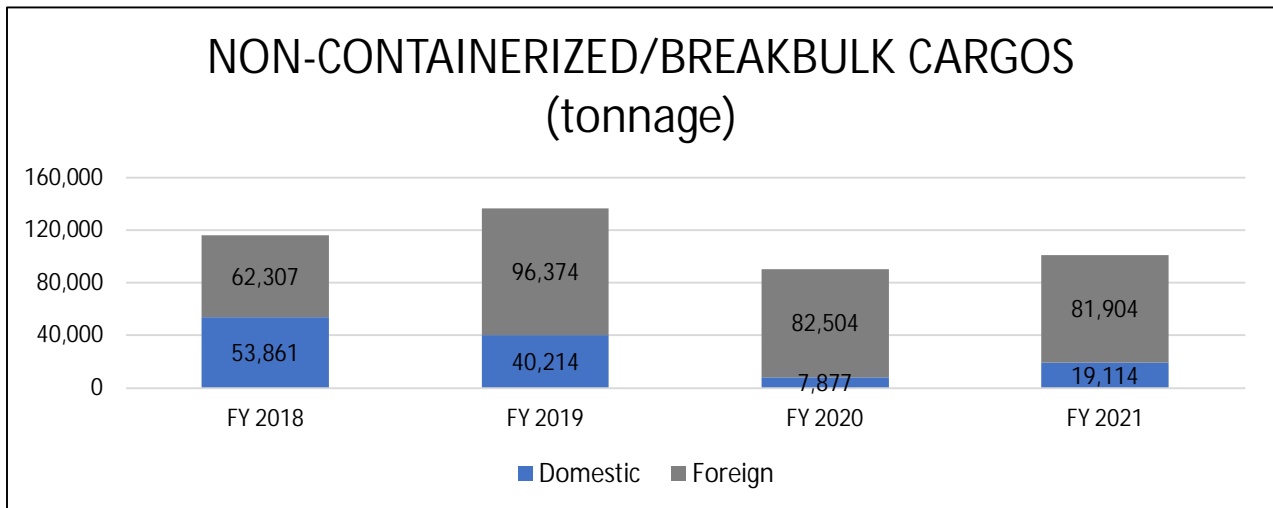
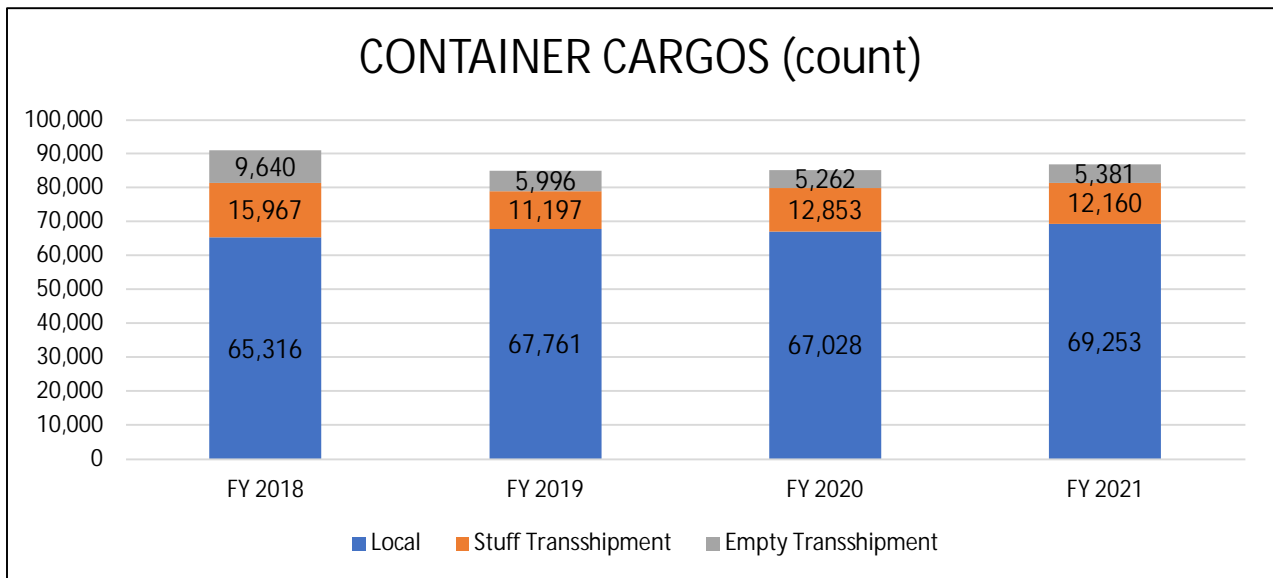
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empty) from the Micronesian islands are then typically sent back through Port and outbound to U.S. or Asia ports. Guam's supplemental handling of transshipment cargo bound for, or exported from, allows Port to grow revenues beyond those generally allowed by local economic conditions. Transshipment cargos generate an average of 6% of total annual revenues.

In FY 2021, Port handled about 87 thousand (K) containers, which is a 1.9% increase from FY 2020's container count of 85K. This overall increase is due mainly to the 2K increase in local containers from 67K in FY 2020 to 69K in FY 2021. The container cargo count in FY 2021 included 69K local containers, 12K stuff transshipment containers, and 5K empty transshipment containers.

While the number of local containers handled had increased over the past five fiscal years, Port experienced a decline in the number of transshipment containers from FY 2018 through FY 2020. Compared to FY 2020, stuff transshipment containers decreased by 5.4% (or 693), while empty transshipment containers increased by 2.3% (or 119). In FY 2021, Port handled 101K tons of breakbulk (non-containerized) cargos, an 11.8% increase from FY 2020's 90K tons.



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Net position is the sum of assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether Port's financial position improves or declines. Refer to the following for a condensed summary of Port's net position as of September 30, 2021, 2020, and 2019 (in thousands).

Condensed Statements of Net Position
(In Thousands)

	<u>2021</u>	<u>2020</u> <u>As restated</u>	<u>2019</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets:			
Current and other assets	\$ 121,369	\$ 121,077	\$ 118,906
Capital assets	116,921	118,250	116,869
Total assets	<u>238,290</u>	<u>239,327</u>	<u>235,774</u>
Deferred outflows of resources	<u>48,320</u>	<u>37,571</u>	<u>15,602</u>
Total assets and deferred outflows of resources	<u><u>\$ 286,610</u></u>	<u><u>\$ 276,898</u></u>	<u><u>\$ 251,376</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Current liabilities	\$ 7,755	\$ 11,002	\$ 10,397
Other non-current liabilities	233,052	227,580	196,830
Total liabilities	<u>240,807</u>	<u>238,581</u>	<u>207,227</u>
Deferred inflows of resources	<u>32,000</u>	<u>22,281</u>	<u>28,705</u>
Net position:			
Net investment in capital assets	92,602	93,784	90,687
Restricted - expendable	53,693	41,375	39,959
Unrestricted	<u>(132,492)</u>	<u>(119,123)</u>	<u>(115,202)</u>
Total net position	<u>13,803</u>	<u>16,036</u>	<u>15,444</u>
Total liabilities, deferred inflows of resources and Net position	<u><u>\$ 286,610</u></u>	<u><u>\$ 276,898</u></u>	<u><u>\$ 251,376</u></u>

FY 2021 Net Position

Port's net position is largely made up of \$92.6M in net investment in capital assets (e.g., land, facilities, equipment, construction in progress, and intangible assets). These assets are used for the construction, improvement, operation, and maintenance of Port facilities. Port's net position also includes \$53.7M of resources restricted for the following: a reserve fund used to pay the interest and principal payments due for the 2018 Port Revenue Bonds, future crane acquisition or extraordinary crane maintenance, and the maintenance, replacements, and repair of facilities. The remaining is -\$132.5M of unrestricted resources.

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Port's total assets amounted to \$238.3M, which is a \$1.0M decrease from FY 2020. As of FY 2021, current assets amounted to \$75.4M, a \$3.0M increase. Current assets increased largely due to the net \$2.6M increase in current cash and cash equivalents and a \$648K increase in accounts receivable. As of FY 2021, non-depreciable property, plant, and equipment amounted to \$15.4M, which is a \$3.7M increase. These asset increases were offset by mainly depreciable property, plant, and equipment, which decreased by \$5.1M, due to the disposal of fixed assets and the regular annual depreciation of assets. Please refer to Note 3 to the financial statements for more detailed information on Port's capital asset activity.

Port's total liabilities amounted to \$240.8M, which is a \$2.2M increase from FY 2020. As of FY 2021, current liabilities amounted to \$7.8M, which is a \$3.2M decrease compared to the prior year. Current liabilities are composed of the following accounts: accounts payable trade, security deposits and other payables, accrued payroll and withholdings, the current portion of long-term debt, and the current portion of accrued annual leave. Settlement payouts in FY 2021 decreased the contingency liability balance to \$237K. As of FY 2021, long-term debt amounted to \$67.2M, which is a \$2.8M decrease. See Note 6 to the accompanying financial statements for additional details on Port's financing activities.

These liability decreases were offset by the \$5.1M increase in OPEB liability and the \$2.6M increase in net pension liability. Changes in the actuarial assumptions result in an upward or downward movement of the OPEB and net pension liabilities.

Deferred outflows of resources (reported with assets) and deferred inflows of resources (reported with liabilities) are the reported differences between projected and actual investment earnings. Additional details regarding Port's proportionate shares of pension and OPEB liabilities may be found in Notes 4 and 5 of this financial report.

Analysis of Port's Activities

Net position changes are based on the sum of operating and non-operating revenues plus contributed capital, minus operating and non-operating expenses. Refer to the following table for a condensed summary of how the Port's net position changed during the fiscal years ended September 30, 2021, 2020, and 2019 (in thousands).

	Changes in Net Position (In Thousands)			2021 % Increase /Decrease Over 2020
	<u>2021</u>	2020 <u>As Restated</u>	<u>2019</u>	
	Operating revenues:			
Cargo throughput charges	\$ 34,777	\$ 33,820	\$ 34,357	2.83%
Equipment and space rental	8,291	9,192	8,833	-9.80%
Crane surcharge	5,984	5,811	5,875	2.97%
Wharfage charges	5,799	5,639	5,771	2.84%
Special services	95	138	199	-31.45%
Other operating income	113	78	229	44.89%
	<u>55,059</u>	<u>54,679</u>	<u>55,265</u>	<u>0.70%</u>
(Provision for) recovery of bad debts	0	(52)	(29)	100.00%
	<u>55,059</u>	<u>54,627</u>	<u>55,236</u>	<u>0.79%</u>

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	<u>2021</u>	<u>2020</u> <u>As restated</u>	<u>2019</u>	<u>2021</u> <u>% Increase</u> <u>/Decrease</u> <u>Over 2020</u>
Operating expenses:				
Management and administration	14,877	14,591	11,866	1.96%
Equipment maintenance	6,432	6,391	6,076	0.64%
Operations	13,656	13,750	11,839	-0.68%
Retiree healthcare and other benefits	6,954	5,505	2,960	26.30%
Facility maintenance	2,142	2,116	1,962	1.20%
General expenses	7,946	6,977	6,885	13.89%
Total operating expenses	<u>52,007</u>	<u>49,331</u>	<u>41,589</u>	<u>5.42%</u>
Earnings from operations before depreciation	<u>3,052</u>	<u>5,297</u>	<u>13,647</u>	<u>-42.38%</u>
Depreciation	6,258	6,361	6,766	-1.60%
(Loss) earnings from operations	<u>(3,206)</u>	<u>(1,064)</u>	<u>6,881</u>	<u>201.30%</u>
Nonoperating (expenses) revenues:				
Total non-operating expenses, net	754	(825)	(4,051)	-191.40%
Earnings (loss) before capital contributions	<u>(2,452)</u>	<u>(1,889)</u>	<u>2,830</u>	<u>-29.80%</u>
Contributed capital:				
U.S. Government grants	219	2,481	697	-91.20%
Increase (decrease) in net position	<u>(2,233)</u>	<u>592</u>	<u>3,528</u>	<u>-477.20%</u>
Net position at the beginning of the year	16,036	15,444	11,917	3.83%
Net position at the end of the year	<u>\$ 13,803</u>	<u>\$ 16,036</u>	<u>\$ 15,444</u>	<u>-13.92%</u>

Changes in Net Position

Port's operating revenues increased by \$432K, from \$54.6M in FY 2020 to \$55.1M in FY 2021. Despite the struggles brought about by the COVID-19 pandemic on Port's resources and personnel, the total containers that Port handled in FY 2021 was 1.9% higher than last year. This resulted in the following revenue increases: cargo throughput charges by \$956K, crane surcharge by \$172K, and wharfage charges by \$160K. These increases were offset by the \$901K decrease in equipment and space rental revenues. As the pandemic's negative impact on businesses (such as tourism, travel, and hospitality) had a ripple effect on Port customers, special service requests decreased, and several leases were terminated.

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Total operating expenses increased by \$2.6M (or 4.6%) from \$55.7M in FY 2020 to \$58.3M in FY 2021. The overall increase in operating expenses is largely due to the recording of OPEB and pension costs in FY 2021, which resulted in higher retiree healthcare and other benefits and divisional expenses. FY 2021 adjustments to OPEB and pension expenses were \$5.3M and \$1.3M, respectively. This resulted in a 26.3% (or \$1.4M) increase in retiree healthcare and other benefits expenses and 1% average increase in the divisional expenses compared to the prior fiscal year. The following expense increases also contributed to the net increase of total operating expenses: general expenses increased by \$636K (or 25.1%), insurance increased by \$389K (or 12.4%), and management and administration increased by \$285K (or 2.0%).

General expenses increased largely because of increases in contractual and maintenance expenses. Insurance premiums increased for property, automobile, and workers' compensation due to the market conditions amidst the pandemic. Management and administration expenses increased mainly because of the following: annual salary increments, hiring of new employees in FY 2021, benefits payouts to employees who separated in FY 2021, and annual salary increments increased retirement rates and insurance rates.

Before depreciation (a non-cash expense), the result of net operating revenues minus operating expenses in FY 2021 was a \$3.1M operating income. When adding back the \$6.3M non-cash expense of depreciation, the result is a \$3.2M operating loss, which is a decline from the \$1.1M operating loss of FY 2020.

In FY 2021, the net result of non-operating revenues and non-operating expenses is a positive \$754K, largely due to the \$2.0M of U.S. Government operating grants received. Port received \$991K from the U.S. Treasury for reimbursement of COVID-19 expenses (i.e., hazardous pay, etc.), via the Coronavirus Aid, Relief, and Economic Security (CARES) Act, as well as \$833K from the U.S. Office of Economic Adjustment for Owner's Agent Engineering Services.

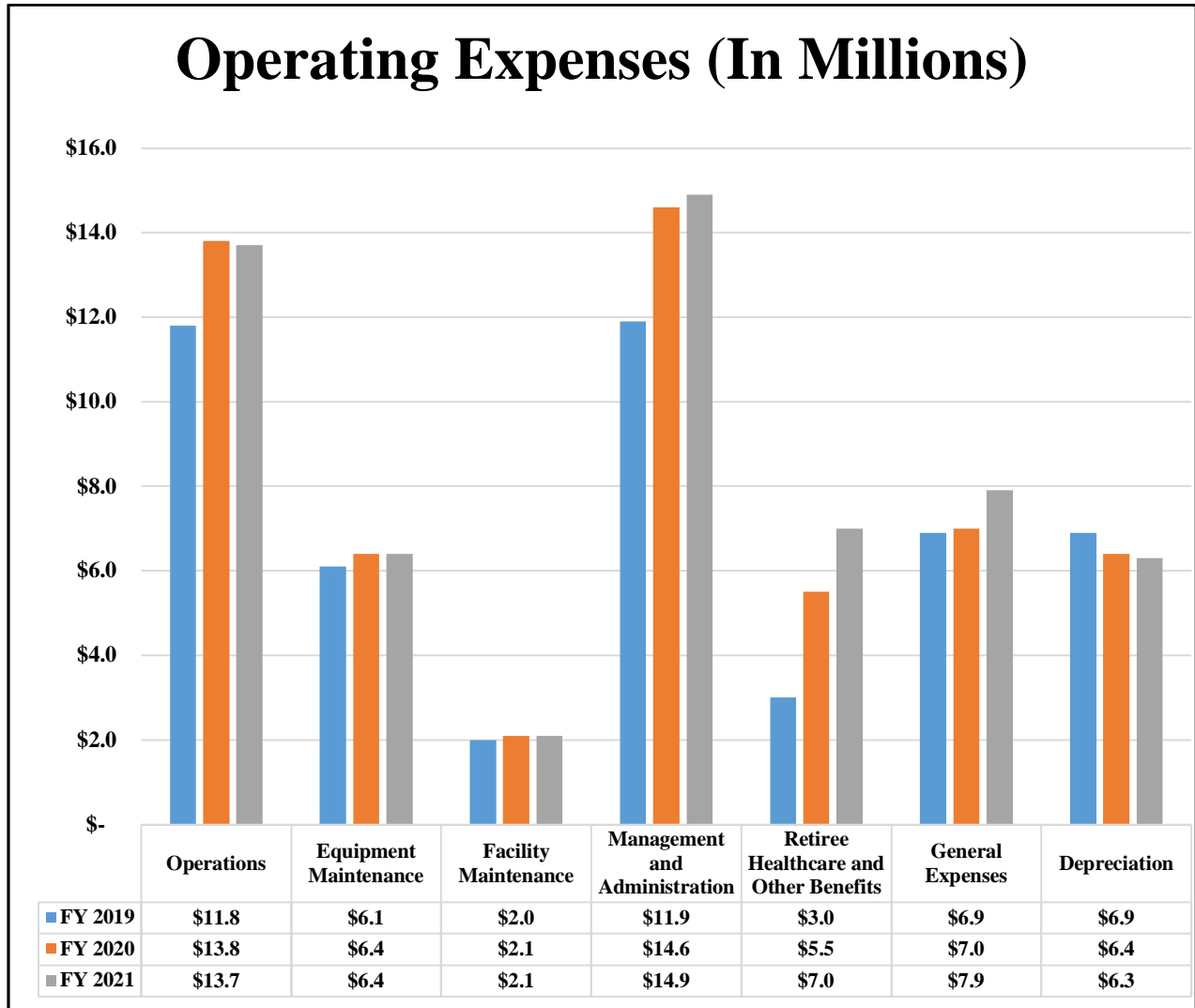
In FY 2021, capital contributions slightly improved the operating loss by only \$219K. U.S. Government capital grants decreased by \$2.3M (or 91.2%) from \$2.5M in FY 2020 to only \$219K in FY 2021. By comparison, Port received two top-lifters in FY 2020 that were Federally-funded in the amount of \$1.6M. Furthermore, decreased activity in Federal-funded projects resulted in less Federal reimbursements in FY 2021.

After adding capital contributions, Port concluded FY 2021 with a \$2.2M decrease in net position. Port's net position at the end of FY 2021 was \$13.8M, which is a \$2.2M decrease from FY 2020's restated \$16.0M net position.

Port's FY 2020 financial statements were restated to account for \$1.5 million of capitalized interest on in-progress capital improvement projects. This restatement resulted in Port concluding FY 2020 with a \$592K increase in net position - which is an improvement from the previously reported \$919K decrease in net position.

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Key Factors in FY 2021 Operating Results and FY 2022 Future Outlook

Corona Virus (COVID-19) Pandemic: In the early part of 2020, international news media reported the rise of the Coronavirus Disease 2019, also known as COVID-19, in the Asia Pacific Region and for which the U.S. President declared a public health emergency. Immediately after the President's declaration, Port management issued to all shippers, agents, and Port staff guidelines containing the appropriate measures to reduce COVID-19 exposure risk to our tenants and employees. These guidelines included a process outlining what shipping agents should do if a crew member was ill and suspected to have COVID-19 and guidance on what employees were prohibited from doing while on the vessel during operations. In March 2020, the Governor of Guam declared a public health emergency to safeguard Guam from COVID-19.

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To date, 100% of Port employees have been vaccinated in response to Executive Order 2021-17, which mandated that all Government of Guam executive branch employees be vaccinated no later than September 24, 2021. Just as we thought some normalcy was returning to our lifestyles, another strain was identified in 2021, causing us to take appropriate measures to reduce the risk to our tenants and employees. During 2021, we held:

- Vaccination Clinics: As the number of positive cases rose amongst our employees, Port sprang into action to take every step possible to protect the employees, tenants, and people of Guam. Aside from the Port Clinic and establishment of the Port Contact Tracing Team, we coordinated with the Guam Department of Public Health and Social Services and the Guam National Guard to set up vaccination clinics, so that our employees, their families, and tenants could receive the COVID-19 vaccinations. Pleased with our set-up for the clinics, the Guam National Guard informed Port that we set the bar high on how any government agency or business was to run a successful vaccination clinic at their job site.
- Dock-Side Vaccination Clinic: At the request of the shipping agents, and with the assistance of the Guam Department of Public Health, FHP Clinic, U.S. Immigration, and Guam Customs, Port set up a vaccination clinic in which crew members could receive their dose of vaccination on Port docks.

Port Modernization: The Port Authority of Guam's Modernization Program is designed to meet the island's growth, including military realignment and expansion and growing the tourism market. The key project initiatives for the bond market were as follows:

- Expansion of wharf space to accommodate larger vessels and increase vessel handling capacity;
- Upgrade of the terminal operating system to allow for automated invoicing, cargo and container tracking, financial management, and maintenance management;
- Expansion of existing facilities to support fishing and cruise line industries; and
- Replacement of gantry cranes at the end of useful life to maintain continuous, uninterrupted cargo movement.

As part of the modernization program, Port obtained \$71.4M in revenue bonds to pay for capital improvements at Port and refinance some of its existing debt at a lower interest rate. This was also accomplished through legislation. The capital improvement projects to be funded with bond proceeds include the following:

- Rehabilitation of Hotel Wharf and access road;
- Replacement and relocation of water lines;
- Repair and expansion of the Equipment Maintenance & Repair Building and Warehouse 1; and
- Replacement of Port Administration Building and repair of Golf Pier – one of two Port-owned fuel piers.
- Upgrade of Port's 20-year Oracle JDE World financial management system to a more robust and modern Oracle JDE Enterprise One System.

The only project that has a local share of a federal grant (TIGER) is Hotel Wharf and access road, totaling \$24 million. The Port will be using the revenue bond proceeds to fund its share of the Tiger grant for \$14.2 million.

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Port Master Plan Update: Port Master plan was updated in 2013 to take into consideration that the re-set of the military build-up would be pushed back between 2020 and 2026. However, in the 2015 National Defense Authorization Act (NDAA), a four-year freeze was lifted on the spending on the Marine relocation. For the Fiscal Year 2017, the NDAA authorized \$253 million in new military construction projects. In 2018, the NDAA authorized \$354.6 million in new military construction projects for Guam. Based on expected aggregate population increase statistics, Guam should expect to see increases in Department of Defense military personnel and dependents on the island between 2018 and the highest peak increase in 2023.

The 2013 Port Master Plan summarized the evolution of change in the Port Modernization Program and identified 55 improvement and sustainability projects to be funded by revenue bond proceeds and Port revenues and financial feasibility assessment based on the assumption that the military build-up was pushed back. Out of the 55 projects, 23 are not completed.

In July 2020, the Port engaged with its Owner Agent Engineer consultants in updating the 2013 Master Plan. The update aims to assist the Port in defining its near-term and long-term approach to modernization, maintaining fiscally sustainable operations, and promoting increased awareness and consensus on its approach among all affected stakeholders and ratepayers of Guam.

In August 2021, OEA consultants briefed management, Governor, Lt. Governor, and several senators who participated in a zoom conference on the master plan status, project planning and analysis, demand forecast, port modernization – build back better, current and new OAE contract, transshipment task force and diversification of commercial activities and revenues. The first draft of the Master Plan Update is expected to be submitted to the Port during the first quarter of 2022.

Procurement Delegation: After 14 years since the Port lost its procurement delegation, the Chief Procurement Officer, through the close work relationship with management, restored the full delegation of procurement authority in May 2020. Since then, she has granted a full delegation of procurement authority to the Port for Fiscal Years 2021 and 2022.

Bond Rating: On May 17, 2021, Moody's Investors Service raised its outlook for the Port Authority of Guam from negative to stable, pointing to low leverage, strong liquidity, and the Port's ability to remain fully operational during the coronavirus pandemic. Not only did Moody's Investors Service raise the Port's outlook to stable from negative, but the service also affirmed the Baa2 rating assigned to the Port Authority of Guam's senior port revenue bonds. The affirmation of the Baa2 rating and outlook change to stable follows Moody's rating action on the Government of Guam's general obligation bonds rating, which was affirmed at Ba1 with a stable outlook on 4 May 2021.

"The Port Authority of Guam's Baa2 rating reflects its position as the sole commercial port in Guam, handling around 90% of the territory's imported cargo, including a significant portion of military cargo," stated Moody's in a release.

S&P Global Ratings has upgraded its outlook for the Port Authority of Guam to stable from negative and affirmed its 'A' long-term rating on the agency's outstanding series 2018 Port Revenue Bonds. "The outlook revision reflects our view that, despite the economic disruption caused by the global COVID-19 pandemic, volume levels at the port have remained relatively stable and resilient from fiscal 2019 to fiscal 2020 and continuing into fiscal 2021 (Sept. 30 year-end), given the essentiality of the port to Guam, supporting financial metrics that remain in line with our expectations at the current rating level," the ratings report released by Standard and Poor's Global Ratings stated.

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Gantry Purchase and Maintenance: Port's Owner Agent Engineer consultants provided a recent assessment and found a dire need to replace the Port of Los Angeles (POLA) cranes. The POLA cranes were originally built in 1983/1984. Although these cranes were refurbished in 2009, they reached the end of their expected service life and need to be replaced by 2024. Because of the importance of the Port as the lifeline to sustain economically and U.S. Department of Defense military build-up construction activities on Guam, the Governor has required new Ship-to-Shore (STS) gantry cranes to replace the Port's aging fleet as one of her top priorities. Through management's guidance, the planning staff submitted a grant application to U.S. Economic Development Administration (EDA) for the acquisition of 2 gantry cranes under the Cares Act Funded Recovery Assistance Program and developed a loan application to the U.S. Department of Agriculture for one gantry crane as a back-up to its EDA application.

In November 2021, Governor Leon Guerrero allotted \$15 million in American Rescue Plan Act (ARPA) Fiscal Recovery Funds to Port. These ARPA funds will free up Port's reserve fund to allow funding for capital projects, bond project shortfall, or the purchase of one new gantry crane. Port management is working with its Owner Agent Engineer to develop the STS gantry cranes specifications for procurement.

Public Law 31-145, enacted in 2011, required the Port to contract the services of a Performance Contractor to manage the performance, operation, and maintenance of the Port's gantry cranes and other cranes utilized in Port operations. When this administration came on board in 2019, the 2012 contract had expired. In 2021, the Port successfully negotiated a contract with Matson Navigation Company, and Public Utilities Commission approved the procurement award.

Revenue Bond, Federal, and Port Funded Projects: As a result of management's efforts to make sure the Port meets the expectations of our bond, federal and local stakeholders; the following are the updates in the Port's Capital Improvement Project (CIP) initiatives:

1. Hotel Wharf Rehabilitation and Reconstruction Project: After Maritime Administration (MARAD) approved the environmental assessment and FONSI for Hotel Wharf and issued in September 2019 the notice to proceed with the rehabilitation project, the Port was able to relocate the coral head, which was situated near the wharf.

In March 2021, the Port awarded the Construction Management contract for the Hotel Wharf and Route 11 Access Roadway project. The procurement solicitation was issued in 2021, and the review is currently ongoing.

2. Removal of Port Inoperable Assets: The military build-up peak is expected to occur in 2023. To ensure the Port can stage the increase of cargoes in its terminal facilities and accommodate the additional vessels calling Port, a solicitation of procurement was prepared by a committee comprised of Port staff and our consultants, WSP. The multi-step invitation of the bid was issued on December 31, 2020.

In September 2021, the Port issued the purchase order to remove five inoperable cranes and the removal/ disposal of a sunken barge located in the F6 wharf. This project is currently in progress.

3. Port Wharves Assessment and Upgrades: In July 2018 the Port contracted a company to conduct a post-seismic assessment of the wharves and F1 fuel pier. Based on their assessment, repairs to the F1 fuel pier and wharves F3 to F6 are highly recommended.

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MARAD announced that it had approved the Port's Rebuilding America Infrastructure with Sustainability and Equity (RAISE) grant application for \$17.9 million. The project, estimated at over \$22 million, will upgrade wharves F1 through F6 to support STS gantry cranes operations. It will specifically address sheet piles and concrete cap spalling at the face of the Port's F2, F3, F4, and F6 wharves and the deteriorating structure of the F1 Pier.

4. Oracle Enterprise One (E1) Financial Management System (FMS): In 2019, the Port initiated a project to upgrade the Port's JDE World Management Financial Management System to a more robust and technological JDE E1 FMS. To steer this huge undertaking, the Port created a team comprised of Finance and IT personnel who worked closely with the Oracle project team. After successfully getting through the proof of concept and procurement stages, Enterprise 1 was launched in August 2020.

On May 17, 2021, the Port's Enterprise One FMS system went live. Deliverables for Enterprise One include modules for General Accounting, Accounts Receivable, Accounts Payable, Fixed Assets, Budgeting, Payroll, Human Resources, Procurement, and Inventory. The system also has the ability to streamline processes that reduce non-value activity such as paper filing, spreadsheet reconciliations, manual calculation of interests and collection of late payments, manual inventory processes, and manual financial document delivery. Additional capabilities include the ability to fully implement Job Costing and Work Order system that integrates to the General Ledger and other financial modules, which was not possible with the previous system. But most especially, the new system possesses the ability to move homegrown systems such as Special Service Request invoicing, Operations Time Entry, check printing, W2 processing, requisition and purchase order processing for local GSA transactions, tax table update, and financial required reports into the new JDE Enterprise One system.

Federal Grants and Grant Opportunities: Management team worked closely with Planning staff and respective division heads on the following federal grants:

- a. The Port was approved for \$500,000 to support Harbor of Refugee's repair work and \$512,759 for the Agat Marina Dock B construction by the Department of Agriculture. A draft Memorandum of Understanding is currently with the Department of Agriculture for their review.
- b. MARAD RAISE grant application for \$17.9 million. The project, estimated at over \$22 million per email notification from David Bonet on January 4, 2022, advising on the next steps. \$22,427,496: \$17,941,997 - federal share; \$4,485,499 PAG share. Although awarded, a grant agreement has not been executed pending NEPA, Section 106, and other requirements.
- c. The Port has partnered with Commonwealth Northern Marianas Island (CNMI) for a joint route designation and project designation for consideration under MARAD's America's Marine Highway Program. If approved by MARAD, this joint designation will allow both ports (Guam and CNMI) to apply for grant opportunities for infrastructure upgrades or equipment acquisition.
- d. On June 10, 2021, the U.S. Economic Development Authority (EDA) awarded the Port \$3.0 million for the fuel connectivity line. Award letter breaks down the total amount of \$3,016,363: \$2,413,091 - federal share; \$603,272 - PAG share.
- e. DOI Maintenance Assistance Program - Phase II Welding Shop Repairs - Email notification of award July 2021 - \$303,700: \$151,850 federal share; \$ 151,850 PAG share.

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- f. FEMA Hazard Mitigation Grant - Warehouse I Hardening Project - Email notification of award: December 30, 2021 - \$514,500: \$385,875 - federal share; \$128,625 - PAG share
- g. FEMA Hazard Mitigation Grant - Fendering System Hardening Project - Email notification of award: December 28, 2021 - \$804,919: \$603,689 - federal share; \$201,230 - PAG share.
- h. Acquisition of Radar Intrusion and Vessel Tracking System - \$268,333: \$201,250 - federal share; \$67,083 - PAG share
- i. Acquisition of TWIC Readers and Credentialing System - \$220,001: \$165,001 - federal share; \$55,000 - PAG share

Legal Services: With the sudden departure of the Port's in-house counsel in February 2020, and in order to ensure the procurement processes are not further delayed, management proactively worked with the Attorney General in designating the GSA's Administrative Counsel as the Special Assistant Attorney General for the period the Chief Procurement Officer was assigned to the Port. Then in October 2020, the Attorney General assigned Assistant Attorney General Tom Keeler to assist the Port in reviewing procurement packages. However, his assignment was only for a temporary period.

In 2019, the Port began creating the position process in establishing a staff attorney position within its Classification and Compensation Plan. The transparency and disclosure process on creating the Port Staff Attorney position was completed in April 2019 and filled in January 2021.

Guam Customs Inspection Facility: The PAG team worked closely with Customs representatives to identify the site where the new customs inspection, holding, and securing area will be located. The Port coordinated with the Department of Land Management on the survey and transfer of the property from the Port to Customs and the Department of Public Works on the clearing of the property. As part of the Port Master Plan Update, we included the Guam Customs Inspection Facility feasibility study, which the Office of Economic Adjustment funded. Our consultants provided proposed facility design layouts on the 4-acre parcel adjacent to the main terminal facility, to which Guam Customs agreed with the layouts. The preferred design's objective was two-fold: (1) allowed Customs to conduct privacy operations inside the facility and (2) mandated the use of the Department of Public Works' weigh station by the truckers. Customs will use the design to obtain financing for the facility's construction.

Abandoned Derelict Vessel Project: The Port team worked closely with Guam Environmental Protection Agency and Guam Power Authority to remove 14 abandoned derelict vessels within the navigational hazards that pose significant threats to commercial and natural resources in Apra harbor. A port water tour was done in December 2020, which allowed the Governor and Lt. Governor to observe first-hand the locations of these vessels and to be briefed on the type of work that is to occur in the removal of such vessels. After the boat tour, the Governor signed an executive order forming a group to remove the abandoned vessels from the Port harbor.

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Employee Concerns: Mutual trust and greater understanding between management and employees would need to be built and created. The key elements in any organization's operation are cooperation and not confrontation between management and employees. Port employees have expressed the desire for the following:

- ✓ Improved communication;
- ✓ Management awareness of employee job-related concerns;
- ✓ Personal growth and development;
- ✓ Enhanced decision-making skills;
- ✓ Increased individual power;
- ✓ Improved motivation; and
- ✓ Opportunities for recognition of individual improvement.

The union contract was negotiated between the Guam Federation of Teachers on behalf of the Port Operations and Maintenance employees, and the Port was approved by the Port Board in 2012. However, the contract was stalled because of a lack of authorized signatories in order for the union and the Port to implement the contract's provisions.

The Port implemented a quality circle concept in the 1990s aimed at developing employees and allowing them the opportunity to use their wisdom, creativity, and experience to improve their work environment. The program saw successful results. During this period, the Port's gantry cranes' productivity moves went from 18 moves per hour to 40 moves per hour, surpassing Japan's productivity moves. The concept also instilled a sense of belonging amongst the employees and made them feel that they have an essential role in the organization.

One important achievement was establishing mutual trust and understanding with the employees and Port customers and stakeholders—both federal and local. Communication improved, productivity increased, and participation discussions on decisions affecting the Port and its users are being held regularly. The last two years were tough for the employees due to the COVID-19 pandemic. Port management wanted to gauge the relationship between the Port organization and its employees to determine if management was moving in a better direction as an agency. Two climate surveys were initiated, and 98% of the employees participated in the surveys. The outcomes showed overwhelmingly positive results in job satisfaction and revealed that employees believe that morale is at an all-time high.

Debt Service Coverage

Under the bond indenture of the 2018 Port Revenue Bonds, Port is required to maintain a minimum debt service coverage of 1.25 in relation to net revenues versus annual debt service. Refer to the following for a summary of the annual debt service coverage for the year ended September 30, 2021.

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	2021
Revenues	\$ 46,934
Less Operations & Maintenance Expenses	\$ 48,637
Net Revenues	<u>\$ (1,703)</u>
Plus Other Available Monies	\$ 1,806
Plus Non-Cash Accounting Adjustments	\$ 7,658
Net Revenues & Other Available Monies	<u>\$ 7,761</u>
Rate Covenant:	
Net Revenues & Other Available Monies	\$ 7,761
Total Annual Debt Service	\$ 5,752
Annual Debt Service Coverage	1.35
Debt Service Coverage Requirement	1.25

See note 6 to the financial statements for additional information on Port's financing activities.

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 audit report is designed to provide a general overview of the Port Authority's finances and demonstrate its accountability for the funds it receives and spends.

Management's Discussion and Analysis for the year ended September 30, 2020 and 2019 is set forth in the Port's report on the audit of financial statements which is dated March 31, 2021. That Discussion and Analysis explains in more detail major factors impacting the 2020 and 2019 financial statements. A copy of that report can be obtained by contacting Jose B. Guevara III, Port Authority of Guam, or from the Port's website at www.portguam.com.

For additional information about this report, please contact Jose B. Guevara III, Port Authority of Guam, 1026 Cabras Highway Suite 201, Piti, Guam 96915, or visit www.portguam.com.

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Statements of Net Position
September 30, 2021 and 2020

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2021</u>	<u>2020</u> As restated Note 11
Current assets:		
Cash and cash equivalents - unrestricted	\$ 10,314,359	\$ 20,018,505
Cash and cash equivalents - restricted expendable	<u>59,031,041</u>	<u>46,713,098</u>
Total cash and cash equivalents	69,345,400	66,731,603
Accounts receivable, net of allowance for doubtful accounts of \$299,858 in 2021 and 2020	5,888,274	5,240,402
Federal receivables	158,963	351,325
Prepaid expenses	<u>42</u>	<u>64,631</u>
Total current assets	75,392,679	72,387,961
Cash and cash equivalents - restricted expendable	45,474,646	48,041,056
Replacement parts inventories, net of allowance for obsolescence of \$186,018 in 2021 and \$137,558 in 2020	501,825	648,238
Depreciable property, plant and equipment, net	101,532,587	106,588,701
Nondepreciable property, plant and equipment	<u>15,388,197</u>	<u>11,661,382</u>
Total assets	<u>238,289,934</u>	<u>239,327,338</u>
Deferred outflows of resources from pension	15,315,097	13,903,067
Deferred outflows of resources from other post-employment benefits	<u>33,005,118</u>	<u>23,668,119</u>
Total deferred outflows of resources	<u>48,320,215</u>	<u>37,571,186</u>
Total assets and deferred outflows of resources	<u>\$ 286,610,149</u>	<u>\$ 276,898,524</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term debt	\$ 2,560,000	\$ 2,465,000
Accounts payable, trade and others	2,020,595	2,613,416
Security deposits and other payables	851,722	2,573,881
Accrued payroll and withholdings	738,773	1,272,831
Current portion of accrued annual leave	1,306,757	1,798,867
Unearned revenue	<u>277,679</u>	<u>277,633</u>
Total current liabilities	7,755,526	11,001,628
Long-term debt, net of current portion	67,232,826	70,042,079
Net pension liability	66,111,010	63,517,803
Other post-employment benefits liability	97,077,114	92,013,986
Accrued annual leave, net of current portion	1,046,890	462,075
Accrued DCRS sick leave	<u>1,583,841</u>	<u>1,543,920</u>
Total liabilities	<u>240,807,207</u>	<u>238,581,491</u>
Deferred inflows of resources from pension	1,733,156	1,637,235
Deferred inflows of resources from other post-employment benefits	<u>30,266,358</u>	<u>20,643,550</u>
Total deferred inflows of resources	<u>31,999,514</u>	<u>22,280,785</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	92,602,604	93,784,060
Restricted - expendable	53,693,306	41,375,365
Unrestricted	<u>(132,492,482)</u>	<u>(119,123,177)</u>
Total net position	<u>13,803,428</u>	<u>16,036,248</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 286,610,149</u>	<u>\$ 276,898,524</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2021 and 2020

	2021	2020 As restated Note 11
Operating revenues:		
Cargo throughput charges	\$ 34,776,915	\$ 33,820,469
Equipment and space rental	8,291,223	9,191,997
Crane surcharge	5,983,613	5,811,219
Wharfage charges	5,799,596	5,639,175
Special services	94,587	137,990
Other operating income	113,392	78,262
	55,059,326	54,679,112
Provision for bad debts	-	(51,658)
	55,059,326	54,627,454
Operating expenses:		
Management and administration	14,876,738	14,591,435
Retiree healthcare and other benefits	6,953,748	5,504,567
Equipment maintenance	6,432,429	6,391,270
Depreciation	6,258,251	6,360,712
Transportation services	6,022,858	6,006,525
Stevedoring services	4,297,020	4,392,152
Insurance	3,518,937	3,130,414
Terminal services	3,336,380	3,351,409
General expenses	3,166,415	2,530,651
Facility maintenance	2,141,832	2,116,004
Utilities	1,260,806	1,316,320
Total operating expenses	58,265,414	55,691,459
Loss from operations	(3,206,088)	(1,064,005)
Nonoperating (expenses) revenues:		
U.S. Government operating grants	1,995,703	445,151
Other income (expense), net	18,707	(306,685)
Interest (expense) income, net	(1,143,221)	(954,937)
Loss on disposal of property, plant and equipment	(117,314)	(8,466)
Total nonoperating revenues (expenses), net	753,875	(824,937)
Loss before capital contributions	(2,452,213)	(1,888,942)
Contributed capital:		
U.S. Government capital grants	219,393	2,480,989
(Decrease) increase in net position	(2,232,820)	592,047
Net position at beginning of year	16,036,248	15,444,201
Net position at end of year	\$ 13,803,428	\$ 16,036,248

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020 As restated Note 11
Cash flows from operating activities:		
Cash received from customers	\$ 54,411,500	\$ 54,019,381
Cash payments to suppliers for goods and services	(14,568,561)	(10,982,153)
Cash payments to employees for services and benefits	(34,119,134)	(33,574,337)
Net cash provided by operating activities	5,723,805	9,462,891
Cash flows from investing activity - interest received	99,789	642,686
Cash flows from capital and related financing activities:		
Capital grants received	411,755	2,353,945
Repayment of long-term debt	(2,465,000)	(2,380,000)
Interest paid	(691,103)	(1,213,069)
Purchase of property, plant and equipment	(5,046,266)	(7,750,757)
Net cash used in capital and related financing activities	(7,790,614)	(8,989,881)
Cash flows from non-capital related financing activities:		
Operating grants received	1,995,703	445,151
Other non-capital activities	18,704	(306,683)
Cash provided by non-capital related financing activities	2,014,407	138,468
Net increase in cash and cash equivalents	47,387	1,254,164
Cash and cash equivalents at beginning of year	114,772,659	113,518,495
Cash and cash equivalents at end of year	\$ 114,820,046	\$ 114,772,659
Reconciliation to statement of net position:		
Cash and cash equivalents - current	\$ 69,345,400	\$ 66,731,603
Cash and cash equivalents - restricted non-current	45,474,646	48,041,056
	\$ 114,820,046	\$ 114,772,659
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (3,206,088)	\$ (1,064,005)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	6,258,251	6,360,712
Provision for bad debts	-	51,658
Pension expenses	1,277,098	648,617
Other post-employment benefit costs	5,348,938	3,959,175
Changes in operating assets and liabilities:		
Accounts receivable, net	(647,872)	(736,211)
Prepaid expenses	64,589	(26,497)
Replacement parts inventories, net	146,413	(79,321)
Accounts payable, trade and others	(1,393,980)	323,419
Security deposits and other payables	(1,722,156)	(1,297,546)
Accrued payroll and withholdings	(534,058)	373,232
Accrued annual leave	92,705	415,917
Unearned revenue	44	76,481
Accrued sick leave	39,921	457,260
Net cash provided by operating activities	\$ 5,723,805	\$ 9,462,891

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Notes to Financial Statements
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(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 (GovGuam).

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 GovGuam 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 placed the Authority under the oversight of the Public Utilities Commission of Guam (PUC). 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.

Operating and Nonoperating 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 and expenses. All expenses related to operating the Authority are reported as operating expenses. Capital grants and other capital contributions from governmental agencies are recorded as net position when earned. Operating grants are recorded as revenue when earned.

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

Net Position

Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of the following three sections:

Net investment in capital assets:

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

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

All of the Authority's restricted net position at September 30, 2021 and 2020 is expendable.

Unrestricted:

Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of 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 position and of cash flows, cash and cash equivalents is defined as cash on hand, deposits in banks, time certificates of deposit, money market funds and short-term investments in U.S. Treasury obligations with initial maturities of three months or less. Restricted cash is considered to be cash and cash equivalents but is separately classified in the statements of net position.

Accounts Receivable and Allowance for Doubtful Accounts

Substantially all of the Authority's accounts receivable as of September 30, 2021 and 2020 are due from international steamship lines/agents which are located or operating on Guam.

The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 30 days from the date of billing. As of September 30, 2021 and 2020, receivables that are more than thirty days past due totaled \$1,680,428 and \$825,382, 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 collectability 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 deems the accounts to be uncollectible.

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(1) Organization and 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, inventory includes items which often are not used within one year and are largely used for repair and maintenance of non-current plant and equipment. 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 GovGuam. 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 or expense, respectively.

Compensated Absences

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

In accordance with Public Law No. 27-5 and Public Law No. 28-68, employee annual leave accrual rates are credited at either 104, 156 or 208 hours per year, depending upon the employees' 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.

The statutes further amended the maximum accumulation of such annual leave credits from 480 to 320 hours. Public Law No. 27-106 allows employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, to carry over their excess and to use the excess amount of leave prior to retirement or termination from service or they may credit not more than 100 excess hours to sick leave. However, at retirement, lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours is not allowed.

Public Law 26-86 allows members of the Defined Contribution Retirement System (DCRS) to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. A liability is accrued for estimated sick leave to be paid out to DCRS members upon retirement.

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

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Authority recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents the Authority's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. The total pension liability also includes the Authority's proportionate share of the liability for ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments that are anticipated to be made to defined benefit plan members and for anticipated future COLA to DCRS members. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Other Post-Employment Benefits (OPEB)

OPEB is required to be recognized and disclosed using the accrual basis of accounting. OPEB offered to the Authority's retirees includes health and life insurance. The Authority recognizes OPEB liability for the defined benefit OPEB plan in which it participates, which represents the Authority's proportional share of total OPEB liability - actuarially calculated - of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. An OPEB trust has not been established; thus, the OPEB plan does not presently report OPEB plan fiduciary net position. Instead, the OPEB plan is financed on a substantially "pay-as-you-go" basis.

Changes in the OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in the OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until the applicable future period.

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

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until the applicable future period.

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.

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 casualty losses in excess of insurance coverage during the years ended September 30, 2021, 2020 and 2019.

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.

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

New Accounting Standards

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

During the year ended September 30, 2021, the Authority implemented the following pronouncements:

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

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

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management believes that this statement, upon implementation, may have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

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

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

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

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

In October 2021, GASB issued Statement No. 98, The Annual Comprehensive Financial Report. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 98 will be effective for fiscal year ending September 30, 2022.

(2) Cash and Cash Equivalents

The 2018 bond indenture agreement requires the establishment of special funds to be held and administered by trustees. In addition, proceeds from borrowings to finance various construction projects are maintained by the Authority in construction accounts as required by the 2018 bond indenture. Also, certain funds are restricted by rate orders of the PUC.

The deposit and investment policies of the Authority are governed by 5 GCA 21, Investments and Deposits, in conjunction with applicable bond indentures. Authorized investments include obligations issued or guaranteed by the U.S. government or agencies of the U.S. government; bonds, notes or other indebtedness rated in the highest rating by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P); obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities of not more than three years; any bonds or other obligations of any state of the U.S. or any agency, instrumentality or local government unit of such state which are rated in the highest rating category of either Moody's or S&P; demand and time deposits in certificates of deposit or bankers acceptances with U.S. domestic banks which have a rating of their short term certificates of deposit of A-1 or better by S&P and P-1 by Moody's and mature no more than 360 days after purchase; commercial paper which has a rating in the highest classification by S&P and Moody's; and money market funds rated AAA or better by S&P.

GASB Statement No. 40, Deposit and Investment Risk Disclosures, 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.

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September 30, 2021 and 2020

(2) Cash and Cash Equivalents, Continued

GASB Statement No. 40 also 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, 2021 and 2020, the carrying amount of the Authority's cash and cash equivalents totaled \$114,820,046 and \$114,772,659, respectively, and the corresponding bank balances were \$114,912,814 and \$114,861,925, respectively. Of the bank balance amount as of September 30, 2021 and 2020, \$19,645,318 and \$28,960,799, respectively, was maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021, and 2020, bank deposits in the amount of \$500,000 were FDIC insured for both years. Bank balances as of September 30, 2021 and 2020 also include \$95,267,496 and \$85,901,126, respectively, of short-term investments held and administered by the Authority's trustee in the Authority's name in accordance with a trust agreement and the 2018 bond indenture. As of September 30, 2021, and 2020, monies in the amount of \$ 7,361,375 and \$6,840,156, respectively, were invested in deposit accounts insured by the U.S. Government. 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. As of September 30, 2021 and 2020, \$12,905,392 and \$21,530,377, respectively, of cash and cash equivalents are subject to custodial credit risk. Under 5 GCA21, the Government of Guam requires collateralization of deposits in excess of depository insurance in an amount in value at least ten percent in excess of monies deposited with the financial institution. Such collateralization should be in securities in U.S. Treasury notes or bonds or in U.S. government agencies for which the faith and credit of the United States are pledged for the payment of principal and interest; evidence of indebtedness of the Government of Guam; investment certificates of the Federal Home Bank; or such securities as may be approved by the Director of Administration and the Governor of Guam. 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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(2) Cash and Cash Equivalents, Continued

The composition of restricted cash and cash equivalents is as follows:

	<u>2021</u>	<u>2020</u>
Current restricted:		
2018 Bond Indenture Funds		
Working capital reserve fund	\$ 3,091,053	\$ 3,090,744
General reserve fund	12,014,291	10,000
Debt service fund	1,438,541	1,438,102
Revenue fund	4,627,927	2,262,880
Capital improvement fund	10,202,474	10,201,454
Operations and maintenance fund	3,207	3,123,079
Renewal and replacement reserve fund	2,525,314	1,853,098
Operations and maintenance reserve fund	10,552,976	10,552,976
Bond reserve fund	<u>5,337,736</u>	<u>5,337,736</u>
	<u>49,793,519</u>	<u>37,870,069</u>
PUC Restricted Funds		
Crane replacement sinking fund	4,938,996	4,368,914
Facility maintenance fund	<u>4,298,526</u>	<u>4,474,115</u>
	<u>9,237,522</u>	<u>8,843,029</u>
Total restricted cash and cash equivalents - current	<u>59,031,041</u>	<u>46,713,098</u>
Noncurrent restricted:		
2018 Bond Indenture Fund - Construction fund	<u>45,474,646</u>	<u>48,041,056</u>
	<u>\$ 104,505,687</u>	<u>\$ 94,754,154</u>

(3) Property, Plant and Equipment

A summary of changes in property, plant and equipment for the years ended September 30, 2021 and 2020 is as follows:

	Beginning Balance <u>October 1, 2020</u>	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, <u>2021</u>
Depreciable:				
Buildings	\$ 145,208,274	\$ 1,045,664	\$ (347,296)	\$ 145,906,642
Equipment	<u>35,814,876</u>	<u>271,033</u>	<u>(694,147)</u>	<u>35,391,762</u>
	181,023,150	1,316,697	(1,041,443)	181,298,404
Less accumulated depreciation	<u>(74,434,449)</u>	<u>(6,258,251)</u>	<u>926,883</u>	<u>(79,765,817)</u>
	<u>106,588,701</u>	<u>(4,941,554)</u>	<u>(114,560)</u>	<u>101,532,587</u>
Non-depreciable:				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	<u>8,098,382</u>	<u>4,417,705</u>	<u>(690,890)</u>	<u>11,825,197</u>
	<u>11,661,382</u>	<u>4,417,705</u>	<u>(690,890)</u>	<u>15,388,197</u>
Total	<u>\$ 118,250,083</u>	<u>\$ (523,849)</u>	<u>\$ (805,450)</u>	<u>\$ 116,920,784</u>

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(3) Property, Plant and Equipment, Continued

	Beginning Balance October 1, 2020	Transfers and Additions As restated	Transfers and Deletions	Ending Balance September 30, 2020 As restated
<u>Depreciable:</u>				
Buildings	\$ 145,148,759	\$ 59,515	\$ -	\$ 145,208,274
Equipment	<u>34,404,727</u>	<u>3,009,221</u>	<u>(1,599,072)</u>	<u>35,814,876</u>
	179,553,486	3,068,736	(1,599,072)	181,023,150
Less accumulated depreciation	<u>(69,664,343)</u>	<u>(6,360,712)</u>	<u>1,590,606</u>	<u>(74,434,449)</u>
	<u>109,889,143</u>	<u>(3,291,976)</u>	<u>(8,466)</u>	<u>106,588,701</u>
<u>Non-depreciable:</u>				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	<u>3,416,361</u>	<u>7,180,454</u>	<u>(2,498,433)</u>	<u>8,098,382</u>
	<u>6,979,361</u>	<u>7,180,454</u>	<u>(2,498,433)</u>	<u>11,661,382</u>
Total	\$ <u>116,868,504</u>	\$ <u>3,888,478</u>	\$ <u>(2,506,899)</u>	\$ <u>118,250,083</u>

Interest capitalized and included in construction work-in-progress for the years ended September 30, 2021 and 2020 was \$1,878,968 and \$1,511,516, respectively.

(4) Pensions

The Authority is statutorily responsible for providing pension benefits for the Authority's employees through the GovGuam Retirement Fund (GGRF).

A. General Information About the Pension Plans:

Plan Description: GGRF administers the GovGuam Defined Benefit (DB) Plan, a single-employer defined benefit pension plan, and the Defined Contribution Retirement System (DCRS). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes the Authority, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS) Plan. Hence, the DB Plan became a closed group.

Members of the DB Plan who retired prior to October 1, 1995, or their survivors, are eligible to receive annual supplemental annuity payments. In addition, retirees under the DB and DCRS Plans are eligible to receive an annual ad hoc cost of living allowance (COLA).

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

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(4) Pensions, Continued

A. General Information About the Pension Plans, Continued:

Plan Membership: As of September 30, 2020 (the measurement date), plan membership consisted of the following:

DB members:	
Inactive employees or beneficiaries currently receiving benefits	7,399
Inactive employees entitled to but not yet receiving benefits	3,257
Active employees	<u>4,440</u>
	15,096
DCRS members:	
Active employees	<u>6,810</u>
	<u>21,906</u>

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater. Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or with 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 25 years of service at any age. Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or upon completion of 30 years of service at any age. Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty-six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

Supplemental annuity benefit payments are provided to DB retirees in the amount of \$4,238 per year, but not to exceed \$40,000 per year when combined with their regular annual retirement annuity. Annual COLA payments are provided to DB and DCRS retirees in a lump sum amount of \$2,000. Both supplemental annuity benefit payments and COLA payments are made at the discretion of the Guam Legislature, but are funded on a "pay-as-you-go" basis so there is no plan trust. It is anticipated that ad hoc COLA and supplemental annuity payments will continue to be made for future years at the same level currently being paid.

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(4) Pensions, Continued

A. General Information About the Pension Plans, Continued:

On September 20, 2016, the Guam Legislature enacted Public Law 33-186, which created two new government retirement plans; the DB 1.75 Plan and the Government of Guam Retirement Security Plan (GRSP). Commencing April 1, 2017 through September 30, 2018, eligible employees may elect, during the "election window", to participate in the DB 1.75 Plan or the GRSP with an effective date of January 1, 2018.

The DB 1.75 Plan is open for participation by certain existing employees, new employees, and reemployed employees who would otherwise participate in the DC Plan or the new GRSP and who make election on a voluntary basis to participate in the DB 1.75 Plan by December 31, 2017. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 9.5% of the employee's base salary while employer contributions are actuarially determined. Members of the DB 1.75 Plan automatically participate in the GovGuam deferred compensation plan, pursuant to which employees are required to contribute 1% of base salary as a pre-tax mandatory contribution. Benefits are fully vested upon attaining 5 years of credited service.

Members of the DB 1.75 Plan may retire at age 62 with 5 years of credited service, or at age 60 with 5 years of credited service without survivor benefits, or at age 55 with 25 years of credited service but the retirement annuity shall be reduced $\frac{1}{2}$ of 1% for each month that the age of the member is less than 62 years (6% per year). Credited service is earned for each year of actual employment by the GovGuam as an employee. Upon retirement, a retired member is entitled to a basic retirement annuity equal to an annual payment of 1.75% of average annual salary multiplied by years of credited service. Average annual salary means the average of annual base salary for the three years of service that produce the highest average.

Contributions and Funding Policy: Contribution requirements of participating employers and active members to the DB Plan are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example, the September 30, 2019 actuarial valuation was used for determining the year ended September 30, 2021 statutory contributions. Member contributions are required at 9.52% of base pay.

As a result of actuarial valuations performed as of September 30, 2019, 2018 and 2017, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2021, 2020 and 2019, respectively, have been determined as follows:

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(4) Pensions, Continued

A. General Information About the Pension Plans, Continued:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Normal costs (% of DB Plan payroll)	13.70%	13.86%	13.54%
Employee contributions (DB Plan employees)	<u>9.52%</u>	<u>9.52%</u>	<u>9.52%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>4.18%</u>	<u>4.34%</u>	<u>4.02%</u>
Employer portion of normal costs (% of total payroll)	2.18%	2.39%	2.29%
Unfunded liability cost (% of total payroll)	<u>21.44%</u>	<u>20.70%</u>	<u>21.29%</u>
Government contribution as a % of total payroll	<u>23.62%</u>	<u>23.09%</u>	<u>23.58%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>26.97%</u>	<u>26.28%</u>	<u>26.56%</u>
Employee	<u>9.52%</u>	<u>9.52%</u>	<u>9.52%</u>

The Authority's contributions to the DB Plan for the years ended September 30, 2021, 2020 and 2019 were \$3,344,987, \$3,436,208, and \$3,172,830, respectively, which were equal to the statutorily required contributions for the respective years then ended.

The Authority's contributions to the supplemental annuity benefit payments and the COLA payments for the years ended September 30, 2021, 2020 and 2019 were \$1,032,242, \$1,064,349 and \$1,076,038, respectively, which were equal to the statutorily required contributions for the respective years then ended.

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.

Contributions into the DCRS plan by members are based on an automatic deduction of 6.2% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions for the DCRS plan for the year ended September 30, 2020 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 6.2% of the member's regular pay is deposited into the DCRS. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

The Authority's contributions to the DCRS Plan for the years ended September 30, 2021, 2020 and 2019 were \$ 2,558,187, \$2,325,742, and \$2,019,302, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$ 1,961,020, \$1,777,051 and \$1,547,929 were contributed towards the unfunded liability of the DB Plan for the years ended September 30, 2021, 2020 and 2019, respectively.

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(4) Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

Pension Liability: At September 30, 2021 and 2020, the Authority reported a net pension liability for its proportionate share of the net pension liabilities measured as of September 30, 2020 and 2019, respectively, which is comprised of the following:

	<u>2021</u>	<u>2020</u>
Defined Benefit Plan	\$ 49,926,145	\$ 46,826,407
Ad Hoc COLA/supplemental annuity Plan for DB retirees	13,145,995	13,573,770
Ad Hoc COLA Plan for DCRS retirees	<u>3,038,870</u>	<u>3,117,626</u>
	<u>\$ 66,111,010</u>	<u>\$ 63,517,803</u>

The Authority's proportion of the GovGuam net pension liabilities was based on the Authority's expected plan contributions relative to the total expected contributions received by the respective pension plans for GovGuam and GovGuam's component units. At September 30, 2021 and 2020, the Authority's proportionate shares of the GovGuam net pension liabilities were as follows:

	<u>2021</u>	<u>2020</u>
Defined Benefit Plan	4.01%	3.86%
Ad Hoc COLA/supplemental annuity Plan for DB retirees	4.08%	4.19%
Ad Hoc COLA Plan for DCRS retirees	4.58%	5.21%

Pension Expense: For the years ended September 30, 2021 and 2020, the Authority recognized pension expense for its proportionate share of plan pension expense from the above pension plans as follows:

	<u>2021</u>	<u>2020</u>
Defined Benefit Plan	\$ 5,858,335	\$ 5,413,787
Ad Hoc COLA/supplemental annuity Plan for DB retirees	1,075,822	1,214,385
Ad Hoc COLA Plan for DCRS retirees	<u>202,627</u>	<u>228,058</u>
	<u>\$ 7,136,784</u>	<u>\$ 6,856,230</u>

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(4) Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

Deferred Outflows and Inflows of Resources: At September 30, 2021 and 2020, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021					
	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/SA Plan for DB Retirees</u>		<u>Ad Hoc COLA Plan for DCRS Retirees</u>	
	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ 124,625	\$ -	\$ 8,341	\$ -	\$ 293,077	\$ 71,246
Net difference between projected and actual earnings on pension plan investments	3,577,149	243,755	-	209,922	-	-
Changes of assumptions	-	-	1,030,947	18,711	739,410	230,390
Contributions subsequent to the measurement date	5,306,007	-	922,242	-	110,000	-
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	<u>2,969,881</u>	<u>864</u>	<u>196,800</u>	<u>211,874</u>	<u>36,618</u>	<u>746,394</u>
	<u>\$ 11,977,662</u>	<u>\$ 244,619</u>	<u>\$ 2,158,330</u>	<u>\$ 440,507</u>	<u>\$ 1,179,105</u>	<u>\$ 1,048,030</u>
	2020					
	<u>Defined Benefit Plan</u>		<u>Ad Hoc COLA/SA Plan for DB Retirees</u>		<u>Ad Hoc COLA Plan for DCRS Retirees</u>	
	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ 67,212	\$ -	\$ 94,059	\$ -	\$ 328,337	\$ 90,553
Net difference between projected and actual earnings on pension plan investments	1,646,566	415,100	-	41,739	-	-
Changes of assumptions	-	-	1,218,677	211,008	750,577	302,454
Contributions subsequent to the measurement date	5,213,259	-	958,349	-	106,000	-
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	<u>3,130,399</u>	<u>9,498</u>	<u>348,185</u>	<u>37,989</u>	<u>41,447</u>	<u>528,894</u>
	<u>\$ 10,057,436</u>	<u>\$ 424,598</u>	<u>\$ 2,619,270</u>	<u>\$ 290,736</u>	<u>\$ 1,226,361</u>	<u>\$ 921,901</u>

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(4) Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2021 will be recognized in pension expense as follows:

<u>Year Ending September 30</u>	<u>Defined Benefit Plan</u>	<u>Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees</u>	<u>Ad Hoc COLA Plan for DCRS Retirees</u>
2022	\$ 2,498,258	\$ 608,281	\$ 9,878
2023	2,311,933	168,661	9,878
2024	1,173,165	18,639	9,878
2025	443,680	-	9,878
2026	-	-	9,878
Thereafter	<u>-</u>	<u>-</u>	<u>(28,315)</u>
	<u>\$ 6,427,036</u>	<u>\$ 795,581</u>	<u>\$ 21,075</u>

Actuarial Assumptions: Actuarially determined contribution rates for the DB Plan are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Valuation date:	September 30, 2019
Actuarial cost method:	Entry age normal
Amortization method:	Level percentage of payroll, closed
Remaining amortization period:	May 1, 2033 (13.58 years remaining as of September 30, 2019)
Asset valuation method:	3-year smoothed market value (effective September 30, 2009)
Inflation:	2.50% per year
Total payroll growth:	2.75% per year
Salary increases:	4% to 7.5%
Retirement age:	50% probability of retirement upon first eligibility for unreduced retirement. Thereafter, the probability of retirement is 20% for each year until age 75, and increases to 100% at age 75.

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(4) Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

Mortality: RP-2000 healthy mortality table (males +3, females +2). Mortality for disabled lives is the RP 2000 disability mortality (males +6, females +4). Both tables are projected generationally from 2016 using 30% of Scale BB.

The actuarial assumptions used in the September 30, 2019 valuation were based on the results of an actuarial experience study for the period October 1, 2011 to September 30, 2015. The rationale for each significant assumption is provided in the experience study. To the extent that actual experience differs from the assumptions, future pension costs will differ. The next experience study for the period October 1, 2015 to September 30, 2019 is scheduled to be performed prior to the next year's valuation.

The investment rate assumption as of September 30, 2020 was 7%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the expected nominal return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Nominal Return</u>
U.S. Equities (large cap)	26.0%	7.01%
U.S. Equities (small cap)	4.0%	8.61%
Non-U.S. Equities	17.0%	8.66%
Non-U.S. Equities (emerging markets)	3.0%	10.59%
U.S. Fixed Income (aggregate)	24.0%	3.33%
Risk parity	8.0%	5.66%
High yield bonds	8.0%	6.11%
Global Real Estate (REITs)	2.5%	8.55%
Global Equity	7.5%	7.74%

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(4) Pensions, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

Discount Rate: The discount rate used to measure the total pension liability for the DB Plan as of September 30, 2020 and 2019 was 7.0%, which is equal to the expected investment rate of return. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except supplemental annuity payments to DB retirees and ad hoc COLA to both DB and DCRS retirees. The discount rate used to measure the total pension liability for the supplemental annuity and ad hoc COLA payments as of September 30, 2020 was 2.21% (2.66% as of September 30, 2019), which is equal to the rate of return of a high quality bond index.

Discount Rate Sensitivity Analysis: The following presents the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the Authority's proportionate share of the net pension liability if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

Defined Benefit Plan:

	1% Decrease in Discount Rate <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase in Discount Rate <u>8.0%</u>
Net Pension Liability	\$ <u>62,578,985</u>	\$ <u>49,926,145</u>	\$ <u>39,035,928</u>

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

	1% Decrease in Discount Rate <u>1.21%</u>	Current Discount Rate <u>2.21%</u>	1% Increase in Discount Rate <u>3.21%</u>
Net Pension Liability	\$ <u>14,451,779</u>	\$ <u>13,145,995</u>	\$ <u>12,011,679</u>

Ad Hoc COLA Plan for DCRS Retirees:

	1% Decrease in Discount Rate <u>1.21%</u>	Current Discount Rate <u>2.21%</u>	1% Increase in Discount Rate <u>3.21%</u>
Net Pension Liability	\$ <u>3,446,636</u>	\$ <u>3,038,870</u>	\$ <u>2,691,898</u>

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(4) Pensions, Continued

C. Payables to the Pension Plans:

As of September 30, 2021 and 2020, the Authority recorded payables to GGRF of \$259,656 and \$295,072, respectively, representing statutorily required contributions unremitted as of the respective year-ends.

(5) Other Post-Employment Benefits (OPEB)

The Authority participates in the retiree health care benefits program. GovGuam's Department of Administration is responsible for administering the GovGuam Group Health Insurance Program, which provides medical, dental, and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. The program covers retirees and is considered an other post-employment benefits plan.

A. General Information About the OPEB Plan:

Plan Description: The other post-employment benefits plan is a single-employer defined benefit plan that provides healthcare benefits to eligible employees and retirees who are members of the GovGuam Retirement Fund. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The Governor's recommended budget and the annual General Appropriations Act enacted by the Guam Legislature provide for a premium level necessary for funding the program each year on a "pay-as-you-go" basis. Because the OPEB 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.

Plan Membership: As of September 30, 2020 and 2019 (the respective measurement periods), OPEB plan membership consisted of the following as of September 30, 2020 and 2019 (the respective actuarial valuation dates):

	<u>2020</u>	<u>2019</u>
Inactive plan members or beneficiaries currently receiving benefits	8,114	7,462
Active plan members	<u>11,080</u>	<u>10,832</u>
Total members	<u>19,194</u>	<u>18,294</u>

Benefits Provided: The OPEB Plan provides post-employment medical, dental and life insurance benefits to the Authority retirees, spouses, children and survivors, which are the same benefits as provided to active employees. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. The Authority contributes a portion of the medical and dental premiums, based on a schedule of semi-monthly rates, and reimburses certain Medicare premiums to eligible retirees. Retirees are also required to pay a portion of the medical and dental insurance premiums. Three types of health plans are offered to eligible participants.

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(5) Other Post-Employment Benefits (OPEB), Continued

A. General Information About the OPEB Plan, Continued:

- Standard islandwide Preferred Provider Organization (PPO) Plan
- High Deductible (Health Savings Account - HSA) PPO Plan
- Retiree Supplement Plan (RSP)

The PPO and HSA Plans apply to both active employees and retirees and work with set deductible amounts whereas the RSP Plan is an added option for retirees only.

Contributions: No employer contributions are assumed to be made since an OPEB trust has not been established. Instead, the OPEB Plan is financed on a substantially "pay-as-you-go" basis whereby contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

For the years ended September 30, 2021, 2020 and 2019, the Authority reimbursed GovGuam \$1,519,812 , \$1,475,500 and \$1,681,439, respectively, for its share of the costs of the above mentioned Plan, which were equal to the statutorily required contributions.

B. Total OPEB Liability:

As of September 30, 2021 and 2020, the Authority reported a total OPEB liability of \$97,077,114 and \$92,013,986, respectively, for its proportionate share of the GovGuam total OPEB liability measured as of September 30, 2020 and 2019. The following presents the Authority's change in proportionate share since the prior measurement date:

Proportion at prior measurement date, September 30, 2019	3.60%
Proportion at measurement date, September 30, 2020	<u>3.85%</u>
Increase in proportion	<u>0.25%</u>

Actuarial Assumptions: The total OPEB liability for the OPEB Plan was determined by an actuarial valuation as of September 30, 2020, rolled forward to the measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.75%
Amortization method:	Level dollar amount over 30 years on an open amortization period for pay-as-you-go funding.
Salary increases:	7.5% per year for the first 5 years of service, 6% for 6-10 years, 5% for 11-15 years and 4.0% for service over 15 years. No changes since prior measurement.

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(5) Other Post-Employment Benefits (OPEB), Continued

B. Total OPEB Liability, Continued:

Healthcare cost trend rates:	Non-Medicare and Medicare - 6% for Year 1-3 then reducing 0.25% annually to an ultimate rate of 4.25%. Part B 4.25%. Health care trend assumptions begin at current levels and grade down over a period of years to a lower level equal to some real rate plus inflation. The principal components of health trend are medical inflation, deductible erosion, cost shifting, utilization, technology and catastrophic claims. The overall effect of these components are expected to decline year by year. Medical trend rates are applied to claims cost and retiree contributions, Medicare Part B and Medicare Part D reimbursements are assumed to be 4.25% per year.
Dental trend rates:	4.25% per year, based on a blend of historical retiree premium rate increases as well as observed U.S. national trends.
Participation rates:	Medical - 100% of active employees covered under a GovGuam medical plan will elect to participate at retirement. Dental - 100% of active employees covered under a GovGuam dental plan will elect to participate at retirement. Life - 100% of active employees will elect to participate at retirement. Current retirees will continue in the GovGuam plan as provided in the data, and upon attainment of age 65, will remain in that plan or enroll in a Retiree Supplemental Plan per Medicare Enrollment assumption below.
Medicare enrollment:	Based on current over 65 data, 55% (previously, 15%) of current and future retirees are assumed to enroll in Medicare and will enroll in a Retiree Supplemental Plan upon attainment of age 65. All employees retired prior to September 28, 2008 are assumed ineligible for Medicare upon attainment of age 65 and therefore will not enroll in a Medicare Supplemental Plan.
Dependent status:	Male spouses are assumed to be three years older and female spouses are assumed to be three years younger than the retired employee. Medical - 100% of spouses of active employees covered under a GovGuam medical plan will elect to participate at the active employee's retirement. Dental - 100% of spouses of active employees covered under a GovGuam dental plan will elect to participate at the active employee's retirement. Life - 100% of spouses of active employees will elect to participate at the active employee's retirement. For current retired employees, the actual census information is used.

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(5) Other Post-Employment Benefits (OPEB), Continued

B. Total OPEB Liability, Continued:

Actuarial cost method:	Entry Age Normal. The costs of each employee's post-employment benefits are allocated on a level basis over the earnings of the employee between the employee's date of hire and the assumed exit ages.
Healthy retiree mortality rate:	RP-2000 Combined Healthy Mortality Table, set forward 3 years and 2 years for males and females, respectively, projected generationally using 30% of Scale BB.
Disabled retiree mortality rates:	RP-2000 Disabled Mortality Table for males and females, set forward 6 years and 4 years for males and females, respectively, projected generationally using 30% of Scale BB.
Withdrawal rates:	15% for less than 1 year of service, decreasing 1% for each additional year of service up to 10 years, further decreasing 0.5% for each additional year of service up to 15 years, and 2% for service over 15 years.
Disability rates:	1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and 75% for females as follows: 0.05% for males aged 20-39 years (0.03% for females); 0.10% - .18% for males aged 40-49 years (0.05% - 0.09% for females); 0.32% - 0.53% for males aged 50-59 years (0.16% - 0.27% for females); and 0.76% for males aged 60-64 years (0.38% for females).
Retirement rates:	50% of employees are assumed to retire at first eligibility for unreduced benefits under the Government of Guam Retirement Fund, 20% per year thereafter until age 75, and 100% at age 75.

OPEB Plan Fiduciary Net Position: An OPEB trust has not been established thus the OPEB Plan does not presently report OPEB plan fiduciary net position.

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(5) Other Post-Employment Benefits (OPEB), Continued

B. Total OPEB Liability, Continued:

Discount Rate: The discount rate used to measure the total OPEB liability was 2.21% as of September 30, 2020 (2.66% as of September 30, 2019). The projection of cash flows used to determine the discount rate assumed that contributions from the Authority will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the 2.21% municipal bond rate as of September 30, 2020 (2.66% as of September 30, 2019) was applied to all periods of projected benefit payments to determine the total OPEB liability.

C. Changes in the Total OPEB Liability:

Changes in the Authority's proportionate share of the total OPEB liability for the years ended September 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
At October 1	\$ <u>92,013,986</u>	\$ <u>67,314,364</u>
Changes for the year:		
Service cost	3,962,600	2,492,109
Interest	2,534,191	2,885,664
Change in proportionate share	6,936,757	407,840
Difference between expected and actual experience	10,794,471	-
Change of assumptions	(17,752,367)	20,456,909
Benefit payments	<u>(1,412,524)</u>	<u>(1,542,900)</u>
Net change	<u>5,063,128</u>	<u>24,699,622</u>
At September 30	\$ <u>97,077,114</u>	\$ <u>92,013,986</u>

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.21%) in measuring the 2020 OPEB liability.

	1% Decrease in Discount Rate <u>1.21%</u>	Current Discount Rate <u>2.21%</u>	1% Increase in Discount Rate <u>3.21%</u>
OPEB Liability	\$ <u>115,253,939</u>	\$ <u>97,077,114</u>	\$ <u>82,587,453</u>

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(5) Other Post-Employment Benefits (OPEB), Continued

C. Changes in the Total OPEB Liability, Continued:

Healthcare Cost Trend Rate Sensitivity Analysis: The following schedule presents the sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The sensitivity analysis shows the impact on the OPEB liability if the healthcare cost trend rate used was 1% less than and 1% greater than the current healthcare cost trend rate used in measuring the 2020 OPEB liability.

	<u>1% Decrease</u>	Healthcare Cost <u>Trend Rates</u>	<u>1% Increase</u>
OPEB Liability	\$ <u>80,859,667</u>	\$ <u>97,077,114</u>	\$ <u>118,165,188</u>

D. OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

For the years ended September 30, 2021 and 2020, the Authority recognized OPEB expense of \$ 6,868,750 and \$5,434,675, respectively. At September 30, 2021 and 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2021</u>		<u>2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 15,793,325	\$ 20,976,202	\$ 20,057,226	\$ -
Difference between expected and actual experience	8,887,321	9,290,156	-	12,064,107
Contributions subsequent to the measurement date	1,519,812	-	1,475,500	-
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	<u>6,804,660</u>	<u>-</u>	<u>2,135,393</u>	<u>8,579,443</u>
	<u>\$ 33,005,118</u>	<u>\$ 30,266,358</u>	<u>\$ 23,668,119</u>	<u>\$ 20,643,550</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at September 30, 2021 will be recognized in OPEB expense as follows:

<u>Year Ended September 30</u>	
2022	\$ (297,151)
2023	(1,993,063)
2024	1,398,181
2025	2,179,362
2026	(68,381)
	<u>\$ 1,218,948</u>

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(6) Long-Term Liabilities

A. Long-Term Debt

Long-term bank debt consists of the following:

	<u>2021</u>	<u>2020</u>
2018 Series A Revenue Bonds, initial face value of \$29,980,000, interest at 5.0% per annum payable semi-annually in January and July, principal and mandatory sinking fund payments payable in varying annual installments commencing with a payment of \$270,000 in July 2037, increasing to a final payment of \$3,405,000 in July 2048.	\$ 29,980,000	\$ 29,980,000
2018 Series B Revenue Bonds, initial face value of \$23,145,000, interest at 5.0% per annum payable semi-annually in January and July, principal payments payable in varying and staggered annual installments commencing with a payment of \$1,320,000 in July 2019, with a final payment of \$1,725,000 in July 2037.	21,825,000	21,825,000
2018 Series C Revenue Bonds, initial face value of \$18,320,000, interest at varying rates from 3.587% to 4.582% per annum payable semi-annually in January and July, principal payments payable in varying annual installments commencing with a payment of \$2,380,000 in July 2020, with a final payment of \$3,370,000 in July 2028.	<u>13,475,000</u>	<u>15,940,000</u>
Total long-term debt	65,280,000	67,745,000
Less current portion	<u>(2,560,000)</u>	<u>(2,465,000)</u>
	<u>62,720,000</u>	<u>65,280,000</u>
Add premium on bonds	<u>4,512,826</u>	<u>4,762,079</u>
	\$ <u><u>67,232,826</u></u>	\$ <u><u>70,042,079</u></u>

In June 2018, the Authority issued Revenue Bonds 2018 Series to finance various capital projects, retire certain existing bank loans, provide for capitalized interest for up to two years, fund the bond reserve fund and pay costs of issuance.

All gross revenues of the Authority, except for crane surcharge, facility maintenance fee, and public marina revenues, have been pledged to secure the payment of the bond principal and interest. For the year ended September 30, 2021, the debt service for the series bonds was \$5,745,862 or approximately 11.73% of pledged gross revenues.

Bond premiums associated with the 2018 series bonds are being amortized using the effective interest method over the life of the debt.

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Notes to Financial Statements
September 30, 2021 and 2020

(6) Long-Term Liabilities, Continued

A. Long-Term Debt, Continued

As of September 30, 2021, future maturities of long-term debt are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2022	\$ 2,560,000	\$ 3,182,633	\$ 5,742,633
2023	2,685,000	3,063,896	5,748,896
2024	2,820,000	2,935,842	5,755,842
2025	2,955,000	2,801,618	5,756,618
2026	3,085,000	2,670,118	5,755,118
2027 through 2031	10,845,000	11,395,846	22,240,846
2032 through 2036	8,625,000	9,262,250	17,887,250
2037 through 2041	11,005,000	6,879,000	17,884,000
2042 through 2046	14,050,000	3,838,750	17,888,750
2047 through 2048	<u>6,650,000</u>	<u>502,750</u>	<u>7,152,750</u>
	<u>\$ 65,280,000</u>	<u>\$ 46,532,703</u>	<u>\$ 111,812,703</u>

Changes in long-term bank debt for the years ended September 30, 2021 and 2020 are as follows:

	Outstanding at September 30, <u>2020</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding at September 30, <u>2021</u>	<u>Current</u>	<u>Noncurrent</u>
	2018 Series A bonds	\$ 29,980,000	\$ -	\$ -	\$ 29,980,000	\$ -
2018 Series B bonds	21,825,000	-	-	21,825,000	-	21,825,000
2018 Series C bonds	15,940,000	-	2,465,000	13,475,000	2,560,000	10,915,000
Unamortized premium on 2018 Series bonds	<u>4,762,079</u>	<u>-</u>	<u>249,253</u>	<u>4,512,826</u>	<u>-</u>	<u>4,512,826</u>
	<u>\$ 72,507,079</u>	<u>\$ -</u>	<u>\$ 2,714,253</u>	<u>\$ 69,792,826</u>	<u>\$ 2,560,000</u>	<u>\$ 67,232,826</u>

	Outstanding at September 30, <u>2019</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding at September 30, <u>2020</u>	<u>Current</u>	<u>Noncurrent</u>
	2018 Series A bonds	\$ 29,980,000	\$ -	\$ -	\$ 29,980,000	\$ -
2018 Series B bonds	21,825,000	-	-	21,825,000	-	21,825,000
2018 Series C bonds	18,320,000	-	2,380,000	15,940,000	2,465,000	13,475,000
Unamortized premium on 2018 Series bonds	<u>5,001,699</u>	<u>-</u>	<u>239,620</u>	<u>4,762,079</u>	<u>-</u>	<u>4,762,079</u>
	<u>\$ 75,126,699</u>	<u>\$ -</u>	<u>\$ 2,619,620</u>	<u>\$ 72,507,079</u>	<u>\$ 2,465,000</u>	<u>\$ 70,042,079</u>

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Notes to Financial Statements
September 30, 2021 and 2020

(6) Long-Term Liabilities, Continued

A. Long-Term Debt, Continued

Bond Covenants

The Master Indenture, dated July 1, 2018, as supplemented by the First Supplemental Indenture, sets forth the establishment of accounts, the application of revenues, and certain other covenants to ensure payment of debt service. Management believes the Authority was in compliance with all bond covenants as of and for the years ended September 30, 2021 and 2020. The primary requirements of the Master Indenture are summarized below:

Rate Covenant – the Authority has covenanted to at all times fix, prescribe and collect rates, fees and charges sufficient to yield the sum of net revenues available for debt service during each fiscal year equal to at least 1.25 times the total annual debt service for such fiscal year and to yield revenues during each fiscal year equal to at least the total amount of all transfers required to be made to the Operation and Maintenance Fund, the Debt Service Fund, the Bond Reserve Fund, the Subordinate Securities Fund, the Operation and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund for such fiscal year. Net revenues available for debt service means the sum of all revenues received during the period (excluding crane surcharges, facility maintenance fee, and public marina revenues) less operation and maintenance expenses incurred during such period.

Reserve Funds – the Master Indenture creates the following reserve funds and fund requirements:

- Operation and maintenance reserve fund equal to 90 days, on average, of the total operation and maintenance expenses budgeted by the Authority for the then current fiscal year
- Renewal and replacement reserve fund equal to the greater of (i) an amount equivalent to 30 days, on average, of the total operation and maintenance expenses budgeted by the Authority for the then current fiscal year or (ii) \$3 million (required in 2023)
- Bond reserve fund equal to \$5,337,736
- Working capital reserve fund equal to 180 days of the operation and maintenance costs of the current fiscal year (required in 2023)

Debt Service Fund - the Master Indenture creates a Debt Service Fund available for the purpose of: (1) paying interest on each bond as it shall become due and payable; (2) paying the principal of each bond when due and payable; (3) paying mandatory sinking account when due; and (4) paying Parity Payment Agreement Payments due and payable. As of September 30, 2021 and 2020, the Authority is not currently a party to any Parity Payment Agreements.

Operation and Maintenance Fund - the Master Indenture creates an Operation and Maintenance Fund, available for working capital purposes. The Authority must maintain a balance in such account equal to the amount of operation and maintenance expenses budgeted by the Authority to be paid from revenues during the next succeeding calendar month.

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September 30, 2021 and 2020

(6) Long-Term Liabilities, Continued

A. Long-Term Debt, Continued

Bond Covenants, Continued

Events of default with finance related consequences - the Master Indenture specifies a number of Events of Default and related remedies. In the event that the amount in any Fund or Account is insufficient for the purposes for which such Fund or Account was established, the Trustee shall transfer such amount as is necessary to satisfy such deficiency.

Acceleration - the remedies granted to the Trustee and the Bondholders under the Master Indenture do not include any right to accelerate the payment of the outstanding bonds. The Trustee is authorized to take certain actions upon the occurrence of an event of default, including proceedings to enforce the rights of Bondholders as outlined in the Indenture.

B. Other Long-Term Liabilities

Changes in other long-term liabilities in fiscal year 2021 and 2020 were as follows:

	Outstanding at September 30, <u>2020</u>			Outstanding at September 30, <u>2021</u>		
	<u>Increases</u>	<u>Decreases</u>	<u>Current</u>	<u>Noncurrent</u>		
Accrued annual leave	\$ 2,260,942	\$ 1,842,256	\$ 1,749,551	\$ 2,353,647	\$ 1,306,757	\$ 1,046,890
Accrued sick leave	1,543,920	817,416	777,495	1,583,841	-	1,583,841
Net pension liability	63,517,803	3,099,738	506,531	66,111,010	-	66,111,010
OPEB liability	<u>92,013,986</u>	<u>7,165,898</u>	<u>2,102,770</u>	<u>97,077,114</u>	<u>-</u>	<u>97,077,114</u>
	<u>\$ 159,336,651</u>	<u>\$ 12,925,308</u>	<u>\$ 5,136,347</u>	<u>\$ 167,125,612</u>	<u>\$ 1,306,757</u>	<u>\$ 165,818,855</u>

	Outstanding at September 30, <u>2019</u>			Outstanding at September 30, <u>2020</u>		
	<u>Increases</u>	<u>Decreases</u>	<u>Current</u>	<u>Noncurrent</u>		
Accrued annual leave	\$ 1,845,025	\$ 1,980,677	\$ 1,564,760	\$ 2,260,942	\$ 1,798,867	\$ 462,075
Accrued sick leave	1,086,660	1,165,390	708,130	1,543,920	-	1,543,920
Net pension liability	55,215,897	14,098,703	5,796,797	63,517,803	-	63,517,803
OPEB liability	<u>67,314,364</u>	<u>26,381,060</u>	<u>1,681,438</u>	<u>92,013,986</u>	<u>-</u>	<u>92,013,986</u>
	<u>\$ 125,461,946</u>	<u>\$ 43,625,830</u>	<u>\$ 9,751,125</u>	<u>\$ 159,336,651</u>	<u>\$ 1,798,867</u>	<u>\$ 157,537,784</u>

(7) Major Customers

For the years ended September 30, 2021 and 2020, the Authority has two major shipping agency customers that collectively accounted for 67.35% and 65.46% of total operating revenues, respectively. The Authority has a high concentration of credit risk due to the limited number of entities comprising its customer base.

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September 30, 2021 and 2020

(8) Rental Operations

The Authority leases space to tenants under non-cancelable operating leases, with options to renew, providing for future minimum rentals. The minimum future rentals on non-cancelable operating leases for the five succeeding fiscal years and thereafter, are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2022	\$ 1,440,155
2023	1,440,155
2024	1,440,155
2025	1,440,155
2026	1,440,155
Thereafter	<u>7,307,174</u>
	\$ <u>14,507,949</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 \$8,291,223 and \$9,191,997 for the years ended September 30, 2021 and 2020, respectively.

(9) 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 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.

The Authority commenced the Phase I-A of the plan in 2010 with \$50 million and \$54.5 million appropriations from U.S. Department of Defense (USDOD) and United States Department of Agriculture (USDA), respectively. In November 2013, the Plan was updated to provide a comprehensive view of the Authority's current condition, identify elements of continuous improvement and sustainability, and scale down the components of Phase I-A of the Plan. Changes to the Plan were signed into law through Public Law 32-155 on May 21, 2014. The Authority utilized the \$50 million appropriation from the USDOD and only \$3.5 million appropriation from USDA and will no longer use the rest due to changes in certain factors relating to the military buildup and cargo forecast.

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Notes to Financial Statements
September 30, 2021 and 2020

(9) Commitments and Contingencies, Continued

Port Modernization Plan, Continued

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 is administered and disbursed by MARAD based on the terms of the MOU. The Authority segregated the construction funded by the \$50 million USDOD appropriation into three phases. All three phases have been completed and capitalized in 2015. A dashboard project expenditure summary was provided to the Authority by MARAD and was used as the basis for recording of capital assets. The appropriation from the USDOD has a remaining \$2,600,000 which has been reprogrammed for the maintenance of the capital assets and for acquisition of equipment.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, 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 remaining estimated accrued merit bonus as of September 30, 2021 and 2020 is \$54,000.

Government of Guam General Fund

In March 2011, the Authority received a \$12,250,000 invoice from GovGuam'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 requested DOA further review the assessment as the Authority believes that it does not owe the entire \$12,250,000 based on previous transfers 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, the Guam Environmental Protection Agency, the Guam Police Department and the Guam Fire Department through ongoing operations at the 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. No liability is recorded for this Government of Guam billing as of September 30, 2021 and 2020.

Lawsuit and Claims

The Authority is a defendant in various lawsuits and proceedings arising in the normal course of business. At September 30, 2021, the Authority accrued approximately \$200K, included in security deposits and other payables account in the statements of net position, for estimated settlements of various litigation.

While the outcome of the lawsuits and proceedings cannot be predicted with certainty and could adversely affect 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 any additional material adverse effect on the Authority's financial statements at this time, and therefore, except as disclosed above, no provision has been recorded for litigation and claims in the financial statements.

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Notes to Financial Statements
September 30, 2021 and 2020

(9) Commitments and Contingencies, Continued

Contract Commitments

As of September 30, 2021, the Authority has various on-going construction contracts with a total contract price of \$9 million, of which \$3.1 million has been recorded as construction work-in-progress.

Purchase Commitments

As of September 30, 2021, the Authority has outstanding purchase orders for various equipment purchases totaling \$235,000.

(10) Restricted Net Position

At September 30, 2021 and 2020, net position is restricted for the following purposes:

	<u>2021</u>	<u>2020</u>
Debt service	\$ 44,455,786	\$ 32,532,334
Future crane acquisition or extraordinary crane maintenance	4,938,994	4,368,915
Maintenance, replacements, and repair of facilities	<u>4,298,526</u>	<u>4,474,116</u>
	<u>\$ 53,693,306</u>	<u>\$ 41,375,365</u>

(11) Restatement

During the year ended September 30, 2021, the Authority determined that it had not capitalized interest on construction work-in-progress in accordance with GASB Statement 62 for the year ended September 30, 2020. The 2020 financial statements have been restated as follows to correct this error.

	2020 <u>As previously presented</u>	2020 <u>As restated</u>	<u>Difference</u>
Non depreciable property, plant and equipment	\$10,149,866	\$11,661,382	\$1,511,516
Interest (expense) income, net	(2,466,453)	(954,937)	(1,511,516)

(12) Risk and Uncertainties

The Authority's operations have been affected by the ongoing outbreak of the coronavirus disease. As a result of the spread of the COVID-19 coronavirus, governments worldwide implemented actions to restrict travel and economic activities. The ultimate disruption which may be caused by the outbreak is uncertain, therefore, the actual impact on the Authority's business, results of operations, and financial position for fiscal year 2022 and beyond is currently not determinable.

OTHER FINANCIAL INFORMATION

PORT AUTHORITY OF GUAM
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Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Defined Benefit Plan

	2021	2020	2019	2018	2017	2016
Total Government of Guam net pension liability	\$ 1,246,336,897	\$ 1,214,462,675	\$ 1,179,192,550	\$ 1,142,249,393	\$ 1,368,645,126	\$ 1,436,814,230
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	\$ 49,926,145	\$ 46,826,407	\$ 41,041,830	\$ 39,782,133	\$ 43,796,523	\$ 44,375,587
PAG's proportion of the net pension liability	4.01%	3.86%	3.48%	3.48%	3.20%	3.09%
PAG's covered-employee payroll**	\$ 20,936,236	\$ 19,644,856	\$ 17,885,121	\$ 17,703,032	\$ 16,202,268	\$ 15,793,402
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	238.47%	238.36%	229.47%	224.72%	270.31%	280.98%
Plan fiduciary net position as a percentage of the total pension liability	61.48%	62.25%	63.28%	60.63%	54.62%	52.32%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
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Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	2021	2020	2019	2018
Total Government of Guam net pension liability***	\$ 321,889,969	\$ 324,192,725	\$ 289,875,668	\$ 288,147,121
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	\$ 13,145,995	\$ 13,573,770	\$ 11,646,387	\$ 11,683,996
PAG's proportion of the net pension liability	4.08%	4.19%	4.02%	4.05%
PAG's covered-employee payroll**	\$ 21,344,797	\$ 21,332,343	\$ 20,645,687	\$ 20,610,932
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	61.59%	63.63%	56.41%	56.69%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
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Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA Plan for DCRS Retirees

	2021	2020	2019	2018
Total Government of Guam net pension liability***	\$ 66,393,472	\$ 59,884,407	\$ 49,342,424	\$ 62,445,490
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	\$ 3,038,870	\$ 3,117,626	\$ 2,527,680	\$ 3,186,769
PAG's proportion of the net pension liability	4.58%	5.21%	5.12%	5.10%
PAG's covered-employee payroll**	\$ 11,867,590	\$ 12,260,578	\$ 13,548,374	\$ 19,228,448
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	25.61%	25.43%	18.66%	16.57%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
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Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 5,213,259	\$ 4,720,759	\$ 4,540,620	\$ 4,210,492	\$ 4,017,046	\$ 4,172,659
Contributions in relation to the statutorily required contribution	<u>4,766,204</u>	<u>4,686,893</u>	<u>4,728,288</u>	<u>4,363,054</u>	<u>3,981,412</u>	<u>4,154,190</u>
Contribution (excess) deficiency	<u>\$ 447,055</u>	<u>\$ 33,866</u>	<u>\$ (187,668)</u>	<u>\$ (152,562)</u>	<u>\$ 35,634</u>	<u>\$ 18,469</u>
PAG's covered-employee payroll **	<u>\$ 20,936,236</u>	<u>\$ 19,644,856</u>	<u>\$ 17,885,121</u>	<u>\$ 17,703,032</u>	<u>\$ 16,202,268</u>	<u>\$ 15,793,402</u>
Contribution as a percentage of covered-employee payroll	22.77%	23.86%	26.44%	24.65%	24.57%	26.30%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
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Required Supplemental Information (Unaudited)
Schedule of Changes in the Proportional Share of the Total OPEB Liability and Related Ratios
Last 10 Fiscal Years*

	2021	2020	2019	2018
Service cost	\$ 3,962,600	\$ 2,492,109	\$ 2,980,600	\$ 3,385,608
Interest	2,534,191	2,885,664	3,156,104	2,797,108
Changes in proportionate share	6,936,757	407,840	3,313,976	(10,865)
Difference between expected and actual experience	10,794,471	-	(18,753,465)	-
Change of assumptions	(17,752,367)	20,456,909	(6,524,999)	(8,713,844)
Benefit payments	<u>(1,412,524)</u>	<u>(1,542,900)</u>	<u>(1,644,510)</u>	<u>(1,508,536)</u>
Net change in OPEB liability	5,063,128	24,699,622	(17,472,294)	(4,050,529)
OPEB liability, beginning	<u>92,013,986</u>	<u>67,314,364</u>	<u>84,786,658</u>	<u>88,837,187</u>
OPEB liability, ending	<u>\$ 97,077,114</u>	<u>\$ 92,013,986</u>	<u>\$ 67,314,364</u>	<u>\$ 84,786,658</u>
Covered-employee payroll as of valuation date	\$ 20,200,535	\$ 19,172,254	\$ 17,724,837	\$ 17,004,433
OPEB liability as a percentage of covered-employee payroll	480.57%	479.93%	379.77%	498.62%

Notes to schedule:

Discount rate 2.210% 2.660% 4.180% 3.630%

Change in benefit terms:
None.

Change of assumptions:
Discount rate has changed from respective measurement dates.

* This data is presented for those years for which information is available.

** No assets accumulated in a trust to pay the benefits.

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
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Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Total OPEB Liability
Last 10 Fiscal Years*

	2021	2020	2019	2018
Total OPEB liability **	\$ 2,518,489,145	\$ 2,553,523,376	\$ 1,874,970,335	\$ 2,431,048,672
PAG's proportionate share of the total OPEB liability	\$ 97,077,114	\$ 92,013,986	\$ 67,314,364	\$ 84,786,658
PAG's proportion of the total OPEB liability	3.85%	3.60%	3.59%	3.49%
PAG's covered-employee payroll	\$ 20,200,535	\$ 19,172,254	\$ 17,724,837	\$ 17,004,433
PAG's proportionate share of the total OPEB liability as percentage of its covered-employee payroll	480.57%	479.93%	379.77%	498.62%

* This data is presented for those years for which information is available.

** No assets accumulated in a trust to pay the benefits.

See Accompanying Independent Auditors' Report.

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Required Supplemental Information (Unaudited)
Schedule of OPEB Contributions
Last 10 Fiscal Years*

	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 8,557,624	\$ 6,574,050	\$ 7,774,898	\$ 8,055,416	\$ 6,995,373
Contributions in relation to the actuarially determined contribution	<u>1,412,524</u>	<u>1,542,900</u>	<u>1,644,510</u>	<u>1,508,536</u>	<u>1,508,536</u>
Contribution deficiency	<u>\$ 7,145,100</u>	<u>\$ 5,031,150</u>	<u>\$ 6,130,388</u>	<u>\$ 6,546,880</u>	<u>\$ 5,486,837</u>
Covered-employee payroll as of valuation date	\$ 20,200,535	\$ 19,172,254	\$ 17,724,837	\$ 17,004,433	\$ 17,004,433
Contributions as a percentage of covered-employee payroll	6.99%	8.05%	9.28%	8.87%	8.87%

Notes to schedule:

Valuation date:

Actuarially determined contributions rates are calculated as of September 30, 2020

Method and assumptions used to determine contributions rates:

Actuarial cost method:	Entry age normal.
Amortization method:	Level dollar amount on an open amortization period
Amortization period:	30 years
Inflation:	2.75%
Healthcare cost trend rates:	For 2020, Non-Medicare and Medicare -6%; and Part B 4.25%. For year 1-3, then reducing 0.25% annually to an ultimate rate of 4.25%
Salary increase:	4.0% to 7.5%
Mortality (Healthy Retiree):	RP-2000 Combined Healthy Mortality Table, set forward 3 years and 2 years for males and females, respectively, projected generationally using 30% of Scale BB
Mortality (Disabled Retiree):	RP-2000 Disabled Mortality Table, set forward 6 years and 4 years for males and females, respectively, projected generationally using 30% of Scale BB

* This data is presented for those years for which information is available.

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Details of Operating Expenses
Years Ended September 30, 2021 and 2020

	2021	2020
Management and Administration:		
Management:		
Salaries and wages - regular	\$ 579,997	\$ 569,481
Pension cost	209,923	194,984
Annual leave	45,554	48,224
Benefits - Government contribution	27,244	25,435
Fringe benefits	23,476	9,857
Office supplies	3,439	2,672
Furnishings and equipment	-	135
Miscellaneous	72,465	10,253
	<u>962,098</u>	<u>861,041</u>
Administration:		
Salaries and wages - regular	7,614,884	7,814,611
Pension cost	2,994,139	2,474,943
Annual leave	643,501	609,992
Salaries and wages - overtime	464,214	629,109
Fringe benefits	698,080	455,371
Benefits - Government contribution	313,218	363,264
Repairs and maintenance	242,602	189,243
Salaries and wages - other	462,108	677,478
Furnishings and equipment	144,621	76,860
Operational supplies	72,101	79,290
Office supplies	51,529	40,496
Miscellaneous	213,643	319,737
	<u>13,914,640</u>	<u>13,730,394</u>
Total management and administration	<u>\$ 14,876,738</u>	<u>\$ 14,591,435</u>

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Details of Operating Expenses, Continued
Years Ended September 30, 2021 and 2020

	2021	2020
Equipment Maintenance:		
Salaries and wages - regular	\$ 3,141,387	\$ 3,039,824
Pension cost	1,131,933	1,085,939
Repairs and maintenance	503,021	593,991
Operational supplies	342,856	431,313
Salaries and wages - overtime	197,967	265,532
Annual leave	260,460	254,926
Fringe benefits	338,909	210,734
Salaries and wages - other	264,328	340,777
Benefits - Government contribution	151,187	139,428
Contractual	-	13,642
Furnishings and equipment	99,161	13,562
Office supplies	1,220	1,602
	<u>\$ 6,432,429</u>	<u>\$ 6,391,270</u>
Total equipment maintenance	<u>\$ 6,432,429</u>	<u>\$ 6,391,270</u>
Transportation Services:		
Salaries and wages - regular	\$ 2,960,045	\$ 3,105,016
Pension cost	1,177,561	1,081,706
Salaries and wages - overtime	547,188	558,584
Gas, oil and diesel	241,397	207,436
Fringe benefits	351,214	240,536
Annual leave	234,356	234,389
Salaries and wages - other	344,409	413,464
Benefits - Government contribution	160,616	158,699
Furnishings and equipment	3,640	4,344
Office supplies	1,206	1,585
Operational supplies	1,226	766
	<u>\$ 6,022,858</u>	<u>\$ 6,006,525</u>
Total transportation services	<u>\$ 6,022,858</u>	<u>\$ 6,006,525</u>

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Details of Operating Expenses, Continued
Years Ended September 30, 2021 and 2020

	2021	2020
Stevedoring Services:		
Salaries and wages - regular	\$ 2,260,744	\$ 2,380,813
Pension cost	827,116	821,448
Salaries and wages - overtime	407,914	404,598
Annual leave	169,200	181,515
Fringe benefits	285,550	181,647
Salaries and wages - other	218,721	298,692
Benefits - Government contribution	124,832	122,397
Operational supplies	2,261	839
Office supplies	682	203
	<u>\$ 4,297,020</u>	<u>\$ 4,392,152</u>
Total stevedoring services	<u>\$ 4,297,020</u>	<u>\$ 4,392,152</u>
 Facility Maintenance:		
Salaries and wages - regular	\$ 1,104,320	\$ 1,140,249
Pension cost	398,849	370,164
Operational supplies	136,759	126,700
Salaries and wages - overtime	120,072	105,968
Fringe benefits	157,566	109,705
Annual leave	75,158	80,360
Benefits - Government contribution	32,826	56,956
Furnishings and equipment	52,964	21,269
Salaries and wages - other	56,092	83,954
Repairs and maintenance	260	3,690
Office supplies	128	175
Miscellaneous	6,838	16,814
	<u>\$ 2,141,832</u>	<u>\$ 2,116,004</u>
Total facility maintenance	<u>\$ 2,141,832</u>	<u>\$ 2,116,004</u>

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Details of Operating Expenses, Continued
Years Ended September 30, 2021 and 2020

	2021	2020
Terminal Services:		
Salaries and wages - regular	\$ 1,850,953	\$ 1,873,983
Pension cost	683,394	654,565
Salaries and wages - overtime	246,492	243,936
Annual leave	137,348	143,543
Fringe benefits	173,975	137,589
Benefits - Government contribution	95,981	91,564
Salaries and wages - other	138,069	199,308
Operational supplies	4,097	4,018
Office supplies	5,503	2,903
Furnishings and equipment	568	-
	<u>\$ 3,336,380</u>	<u>\$ 3,351,409</u>
Total terminal services	<u>\$ 3,336,380</u>	<u>\$ 3,351,409</u>
 General Expenses:		
Managers' fee	\$ 923,039	\$ 782,831
U.S. Department of Defense - Office of Economic Adjustment	810,179	-
Legal counsel	37,180	77,245
Professional services	350,668	304,600
Maintenance	236,470	114,673
Waste removal	16,245	91,177
Audit	49,000	49,000
Claims and damages	315,074	444,605
Port incentive award	26,985	15,068
Board of Directors expense	28,609	22,906
Workmen's compensation injury allowance	13,577	10,069
Agency fee	6,579	7,096
Inventory adjustment	64,488	52,040
Loan fee	30	-
Miscellaneous	288,292	559,341
	<u>\$ 3,166,415</u>	<u>\$ 2,530,651</u>
Total general expenses	<u>\$ 3,166,415</u>	<u>\$ 2,530,651</u>

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Summary of Salaries and Wages
Years Ended September 30, 2021 and 2020

	<u>2021</u>		<u>2020</u>
Salaries and wages - regular	\$ 19,512,330	\$	19,923,977
Salaries and wages - overtime	1,983,847		2,207,727
Benefits - Government contribution	905,904		957,743
Fringe benefits	2,028,770		1,345,439
Salaries and wages - other	<u>1,483,727</u>		<u>2,013,673</u>
	<u>\$ 25,914,578</u>	\$	<u>26,448,559</u>

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Employees by Department
Years Ended September 30, 2021 and 2020

Department:	<u>2021</u>	<u>2020</u>
Management and administration	146	136
Equipment maintenance	55	53
Transportation services	65	62
Stevedoring services	50	59
Facility maintenance	29	25
Terminal services	40	38
	<u>385</u>	<u>373</u>

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