

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

Port Authority of Guam
(A Component Unit of the Government of Guam)

*Years ended September 30, 2023 and 2022
with Report of Independent Auditors*



Port Authority of Guam
(A Component Unit of the Government of Guam)

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

Years ended September 30, 2023 and 2022

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Report of Independent Auditors

The Board of Directors
Port Authority of Guam

Report on the Audit of the Financial Statements

We have audited the financial statements of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents (collectively referred to as the "basic financial statements").

Opinion

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority at September 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 32 as well as the Schedules of Proportional Share of the Net Pension Liability on pages 65 through 67, the Schedule of Pension Contributions on page 68, the Schedule of Proportional Share of the Total OPEB Liability on page 69, and the Schedule of OPEB Contributions on page 70, and the Notes to Required Supplementary Information on page 71 be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of details of operating expenses and the schedule of summary of salaries and wages on pages 72 through 76 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of details of operating expenses and the schedule of summary of salaries and wages are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the basic financial statements. The other information comprises the schedule of employees by department on page 77 but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 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.

Ernst + Young LLP

July 24, 2024

Port Authority of Guam
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis

Years ended September 30, 2023 and 2022

Introduction

The Port Authority of Guam's (PAG, Port, Authority) Management Discussion and Analysis (MD&A) provides an overview of Port's financial performance and activities for the fiscal years (FY) ended September 30, 2023, and 2022. Port Management prepared the information in this MD&A, which should be considered in conjunction with the financial statements and accompanying notes that follow this section.

About Port Authority of Guam

The Port Authority of Guam was established as a public corporation and an autonomous agency of the Government of Guam (GovGuam) by Public Law 13-87 in October 1975. In October 2023, Port celebrated 48 years as an autonomous agency. Port operates the only commercial seaport in the Territory of Guam and, as the primary seaport in Micronesia, serves as a transshipment point for the entire Western Pacific region.

Vision

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 and expansion to meet the community's organic growth and the impending military buildup, promote economic growth & opportunities for maritime-related industries, and address the needs of port users.

Mission

The Port Authority of Guam is dedicated to providing full services to ocean vessels in support of loading and unloading cargo for Guam and Micronesia.

Port is the main lifeline of consumer goods into the island, and as such, it recognizes its responsibility to deliver these goods promptly and efficiently. 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 profit to upgrading equipment and facilities and the continued growth of the island's seaport.

Port owns five cargo-handling piers, two fuel piers, and three marinas. It serves the largest U.S. deep-water port in the region and currently handles about one to two million tons of cargo a year. The cost of operations and capital improvements are funded largely from Port's revenues.

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 the region's residents cannot be overstated. As Guam produces 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 Authority of Guam
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Local Economic Factors

Our island community started out 2023 with continued efforts to adjust, restructure, and rebuild after the negative economic impacts of the Coronavirus Disease 2019 (COVID-19) and the related past international travel restrictions, that virtually shut down tourism in March 2020 through 2022.

Then, on May 24, 2023, Guam was struck by the hurricane-force winds and heavy rain of Category 4 Typhoon Mawar – marking it the strongest typhoon to hit our island in over 20 years. While over Guam, Mawar sustained winds of 140 miles per hour, uprooting trees, throwing down branches, wrecking beaches, turning over cars, flooding roads, houses, and buildings, tearing off roofs, and cutting off water, electricity, and cell phone service for most of our island residents.

On May 25, 2023, U.S. President Joe Biden issued a major disaster declaration for Guam, thereby giving the Federal Emergency Management Agency (FEMA) authorization to allocate from available funds necessary for federal disaster assistance. The federal funding made available for total eligible costs came from Public Assistance, Hazard Mitigation, Housing Assistance and Other Needs Assistance. On August 9, 2023, FEMA announced the President's authorization to increase the federal cost-share, of Guam's Mawar major disaster declaration, to 90%, instead of the standard 75%.

Guam's three primary sources of fund inflows are tourism, construction capital investment, and federal expenditures. Guam's location in the Pacific will continue to provide a fundamental advantage for U.S. defense and support the long-term trend of tourism expansion. The growth of Guam's economy has been, and is expected to be, driven by a combination of the needs of a growing population and military presence, continued expansion and diversification in the tourism industry, and private and public investment in construction projects for the civilian and defense sectors.

In February 2023, Guam welcomed the MS Amadea at the port – the first cruise liner to visit Guam since the coronavirus pandemic began. Since then, Guam has welcomed nine more cruise liners – M/V Diamond Princess in March 2023, MSC Bellissima in January 2024, MS Zuiderdam in February 2024, MS Artania in February 2024, MS Asuka II in March 2024, MS Queen Elizabeth in March 2024, the Le Soléal in March 2024, Carnival Luminosa in April 2024, and MV Seabourn Pursuit in May 2024.

Construction activity increased dramatically from FY 2020 to FY 2022 as measured by construction employment, H2 workers, and gross receipt taxes paid for construction. However, the dollar value of building and construction permits issued in FY 2023 decreased by 56%, primarily in commercial, GovGuam, and miscellaneous construction. While new construction permits decrease may have been due, in part, to high construction costs, ongoing construction continued as evident by increased breakbulk cargo that Port handled in FY 2023.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Management’s Discussion and Analysis, continued

Local Economic Factors, continued

U.S. Department of Defense (DOD) construction contracts in Guam (that amounted to \$5M or more) coped a little better in FY 2023 with only a 6% decrease from FY 2022. Individual, DOD construction contracts in Guam decreased from \$799.9M in FY 2022 to \$754.6M in FY 2023. This slight decrease is an offset between a 66% increase in local-based DOD contracts and a 51% decrease in off-island DOD contracts. Maintaining a \$700M+ level of DOD contracts is due primarily to the anticipated relocation of about 5,000 U.S. Marine Corps personnel and their dependents from Okinawa, Japan to Guam – most commonly referred to as the “military buildup”.

As the only commercial seaport in Guam, Port is highly essential, playing a critical role in Guam's economic vitality and on-island military operations and expansion, and in general, for processing over 90% of Guam's total volume of goods and supplies.

Overview of Port’s 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 4) notes to financial statements. Also included are required supplementary information to accompany the basic financial statements.

In a separate report, the independent financial auditors issued an unmodified (clean) opinion on Port’s FY 2023 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 2023 compliance over major federal programs and found no material weakness or significant deficiency in Port’s internal control over major federal programs.

Financial Position Summary

The Net Position (the difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources) is an indicator of Port’s current fiscal health and financial position over time. The Statement of Net Position is a snapshot presentation of Port’s financial position at the end of the fiscal year. A summary of this statement, which includes all of Port's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of September 30, are as follows (in thousands):

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|----------------------|
| Assets and Deferred Outflows of Resources | | | |
| Current and other assets | \$139,144 | \$138,939 | \$121,369 |
| Other noncurrent asset | 36,781 | 37,918 | --- |
| Capital assets | <u>121,860</u> | <u>115,473</u> | <u>116,921</u> |
| Total assets | 297,785 | 292,330 | 238,290 |
| Deferred outflows of resources | <u>44,717</u> | <u>38,352</u> | <u>48,320</u> |
| Total assets and deferred outflows of resources | <u>\$342,502</u> | <u>\$330,682</u> | <u>\$286,610</u> |

Port Authority of Guam
(A Component Unit of the Government of Guam)

Management’s Discussion and Analysis, continued

Financial Position Summary, continued

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|--|------------------|------------------|------------------|
| Liabilities, Deferred Inflows of Resources and Net Position | | | |
| Current liabilities | \$ 9,519 | \$ 9,003 | \$ 7,755 |
| Non-current liabilities | <u>227,833</u> | <u>229,159</u> | <u>233,052</u> |
| Total liabilities | <u>237,352</u> | <u>238,162</u> | <u>240,807</u> |
| Deferred inflows of resources | 74,174 | 66,139 | 32,000 |
| Net position: | | | |
| Net investment in capital assets | 106,617 | 98,457 | 92,602 |
| Restricted - expendable | 47,119 | 46,574 | 53,693 |
| Unrestricted | <u>(122,760)</u> | <u>(118,650)</u> | <u>(132,492)</u> |
| Total net position | <u>30,976</u> | <u>26,381</u> | <u>13,803</u> |
| Total liabilities, deferred inflows of resources, & net position | <u>\$342,502</u> | <u>\$330,682</u> | <u>\$286,610</u> |

Source: PAG Financial Audits.

As of FY 2023, Port’s assets plus deferred outflows of resources exceeded its liabilities plus deferred inflows of resources by \$31.0 million (M) – Port’s total net position at year end. Port’s total net position increased by \$4.6M (or 17.4%) from FY 2022 to FY 2023. Port’s total assets amounted to \$297.8M as of FY 2023.

Cash and cash equivalents (restricted and unrestricted) of \$124.5M accounted for 42% of Port’s assets. Port’s restricted, expendable cash and cash equivalents of \$95.9M are 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.

In any given year, the largest portion of Port’s net position is its net investment in capital assets (e.g., land, facilities, equipment, and construction in progress). Port uses these capital assets to provide services to its tenants and customers, and to construct, improve, and maintain its assets. Therefore, these capital assets are not available for future spending. Net investment in capital assets accumulated to \$106.6M as of FY 2023, or 35.8% of Port’s total assets. New asset additions and construction activities increased by 229.6% from \$4.7M in FY 2022 to \$15.4M in FY 2023.

Inclusive of federal receivables and the current portion of lease receivables, total accounts receivable of \$13.6M comprised only 5% of total assets as of FY 2023.

In support of its mission, Port leases its land, infrastructure, and building space to private companies to further develop the maritime industries in Guam. With the adoption of Governmental Accounting Standards Board (GASB) Statement No. 87, Leases, in FY 2022, Port continues to recognize, on the balance sheet, the present value of the lease payments expected to be received for the remainder of the lease term.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Financial Position Summary, continued

Port counted a total of 46 lease agreements with 40 companies at the start of FY 2023. However, only 13 of these leases, with eight companies, continue to be applicable and measurable under GASB 87. As the lessor, Port recognized lease receivables of \$37.9M and a deferred inflow of future lease payments of \$37.4M as of FY 2023. It is to be expected that with every passing year, the value of these lease agreements will decrease as the revenue of each respective year is recognized. All other (short-term) leases were recognized directly as revenue on the income statement.

As a public corporation, Port dedicates all of its profit to investing in and upgrading equipment and facilities for the continued growth of the island's seaport. As such, Port had only one lease agreement qualifying it as a lessee under GASB 87. As the lessee, Port recognized a lease liability of \$279 thousand (K) and a lease asset (for leased equipment) of \$276K as of FY 2023.

Port's total liabilities amounted to \$237.4M, as of FY 2023. Making up 4.0% of Port's total assets, \$9.5M in current liabilities included trade accounts payable, security deposits and other payables, accrued payroll and withholdings, unearned revenue, and the current portion of accrued annual leave and long-term debt.

Port pays all current retirement obligations for our retirees. As is the nature of retirement benefits, coupled with changes in actuarial assumptions, Port's net pension liability and other post-employment benefits (OPEB) liability make up the majority of total liabilities. As of FY 2023, Port's net pension liability increased to \$73.4M, while its OPEB liability increased to \$90.4M.

Port's net pension liability, OPEB liability, deferred outflows of resources (reported with assets), and deferred inflows of resources (reported with liabilities) are impacted by the annual changes in actuarial assumptions. Additional details regarding Port's net pension and OPEB liabilities may be found in Notes 4 and 5 of this financial audit report.

The remainder of Port's long-term debt on the 2018 Series Revenue Bonds was \$64.1M, or 27% of total liabilities, as of FY 2023. At least 59% of the bonds' proceeds are invested in improving Port's existing assets and acquiring new assets. The other 41% was used with respect to the bonds to pay any costs or expenses relating to the authorization, issuance, or sale of bonds; fund a debt service reserve fund; and fund capitalized interest.

With its volume of cash and cash equivalents, compared to its current liabilities, Port can more than cover its current obligations and would be considered investment and creditworthy. Port continues to pay down its long-term debt while still being able to maintain its cash and cash reserves. Refer to the *Debt Administration* section for the favorable underlying credit ratings on Port's outstanding 2018 Series Revenue Bonds.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Statements of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position provides insight into how Port's net position changed during the fiscal year. Net position changes are based on the sum of operating and non-operating revenues plus contributed capital minus operating and non-operating expenses. A summarized comparison of Port's revenues, expenses, and changes in net position (in thousands) for the years ended September 30, 2023, 2022 and 2021, is as follows:

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|--------------------------------------|-----------------|-----------------|-----------------|
| Operating revenues | \$60,616 | \$57,698 | \$55,059 |
| Operating expenses | <u>56,042</u> | <u>54,553</u> | <u>52,007</u> |
| Operating income before depreciation | 4,574 | 3,145 | 3,052 |
| Depreciation | <u>6,189</u> | <u>6,144</u> | <u>6,258</u> |
| Operating (loss) income | (1,615) | (2,999) | (3,206) |
| Nonoperating revenues, net | 4,416 | 15,016 | 754 |
| Capital contributions | <u>1,794</u> | <u>561</u> | <u>219</u> |
| Increase (decrease) in net position | 4,595 | 12,578 | (2,233) |
| Net position at beginning of year | <u>26,381</u> | <u>13,803</u> | <u>16,036</u> |
| Net position at end of year | <u>\$30,976</u> | <u>\$26,381</u> | <u>\$13,803</u> |

Source: PAG Financial Audits.

Financial Operating Highlights

A summary of operating revenues is as follows (in thousands):

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|----------------------------|-----------------|-----------------|-----------------|
| Operating Revenues | | | |
| Cargo throughput charges | \$36,279 | \$35,976 | \$34,777 |
| Equipment and space rental | 10,534 | 9,553 | 8,291 |
| Crane surcharge | 5,929 | 6,027 | 5,984 |
| Wharfage charges | 6,184 | 6,018 | 5,799 |
| Special services | 98 | 92 | 95 |
| Other operating income | <u>1,677</u> | <u>32</u> | <u>113</u> |
| | 60,701 | 57,698 | 55,059 |
| Provision for bad debts | (85) | --- | --- |
| Total operating revenues | <u>\$60,616</u> | <u>\$57,698</u> | <u>\$55,059</u> |

Source: PAG Financial Audits.

During FY 2023, Port's operating revenues increased by \$2.9M from FY 2022. In FY 2023, Port handled 4% less containers, but 52% more breakbulk (non-containerized) cargo, than last year. This is reflected in the following revenue increases: cargo throughput charges by \$303K and wharfage charges by \$166K, despite a \$98K decrease in crane surcharge. Other revenue increases included special services revenue by \$6K and other operating income by \$1.6M.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Financial Operating Highlights, continued

The \$303K increase in cargo throughput charges revenue, from FY 2022, are composed of the following increases: breakbulk by \$475K, roll-on/roll-off cargo by \$342K, cargo on chassis by \$231K, and overstowed containers by \$100K.

Roll-on/roll-off cargo is cargo discharged without needing Port equipment, e.g., personal vehicles or heavy equipment. In FY 2023, Port handled 6,821 individual roll-on/roll-off cargo, which is a 29% increase from the 5,291 individual roll-on/roll-off cargo handled in FY 2022.

Crane surcharge revenue decreased by \$98K as a result of the decrease in container cargo count.

Though we believe the following amount to be collectible based on prior collection experience, \$85K of FY 2023 revenue was formally recorded as uncollectible (bad debts expense) due to our aging calculation policy. None of the FY 2022 and FY 2021 revenue was formally recorded as uncollectible in consideration of the negative economic impacts of COVID-19 from early 2020 into 2022.

With Port being the only commercial seaport of Guam, Port lacks any significant regional competition. Even so, Port recognizes its responsibility to deliver these goods promptly and efficiently, and strives to reduce the turnaround time of ships calling at the terminal. Port's turnaround time is measured by the amount of time a vessel spends along Port's waterfront (i.e., berth hours) and by the total container movement divided by the operation hours [i.e., container vessel net moves per hour (NMPH)].

From FY 2019 to FY 2023, Port's average berth hours for all shipping vessels have improved as compared to its FY 2017 and FY 2018 performance. Improved berth hours are evident in the decreased number of hours that major shipping agents had to spend in Port's waterfront. From FY 2019 to FY 2023, Port's average net moves per hour for all shipping vessels have improved as compared to its FY 2017 and FY 2018 performance. Higher crane productivity per hour is evident in the increased net moves per hour per major shipping agent.

Equipment and space rental revenue increased by \$981K, due mainly to the \$810K increase in demurrage revenue. Port allows shipping agents to store cargo in or on terminal facilities for a short number of days free of charge. After the free period expires, a demurrage fee is charged for the continued storage of the shipping agent's cargo. Demurrage revenue increased in FY 2023 despite extending the free storage period, as part of our efforts to lessen the hardship and negative economic impacts of Typhoon Mawar on our local businesses and industry partners.

Other operating income increased by \$1.6M from FY 2022 due to \$2M received as a result of the insurance claim proceeds from the debris, damages, and business interruptions that followed Typhoon Mawar.

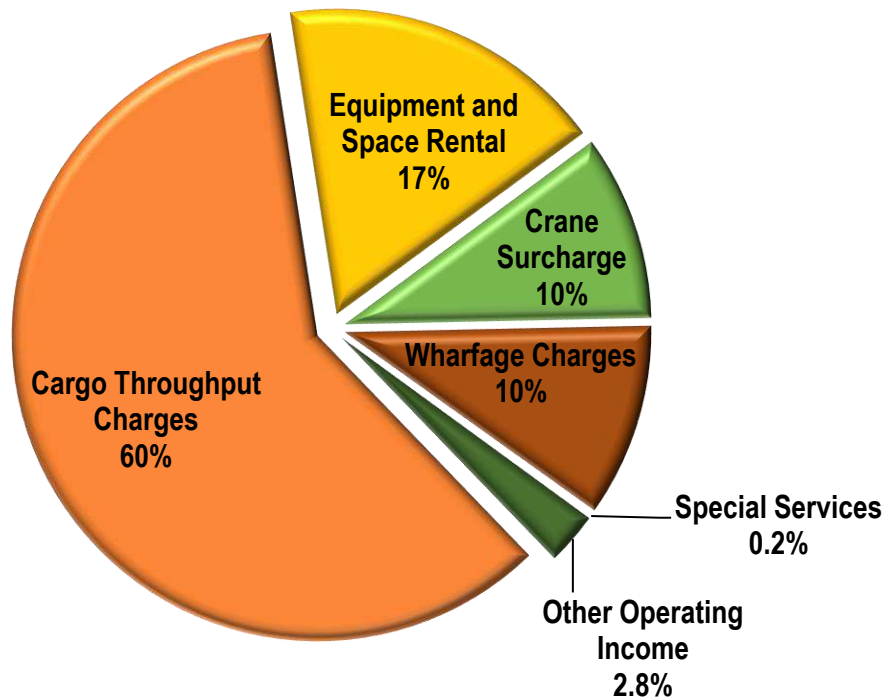
Port Authority of Guam
(A Component Unit of the Government of Guam)

Management’s Discussion and Analysis, continued

Financial Operating Highlights, continued

A visual breakdown of Port’s operating revenues for the year ended September 30, 2023 is as follows:

FY 2023 Operating Revenues



Source: PAG Financial Audits.

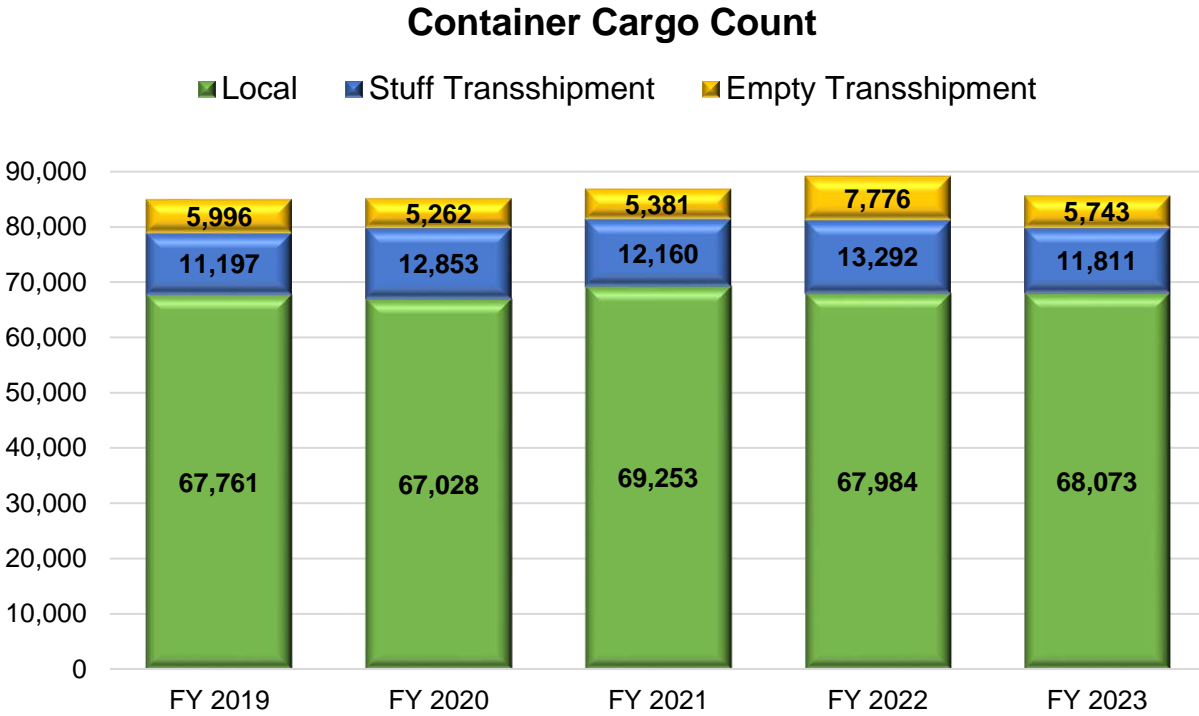
As evident by the revenues pie chart, the main gauge for Port’s annual revenue is the number of cargo it handles. Cargos are classified as either container or non-container (breakbulk). Container cargo refers to the goods that are transported via shipping container. Container cargo is further broken down into either local or transshipment. Local containers contain goods destined specifically for Guam's economy. The majority of local cargo exports are empty containers. Transshipment containers are unloaded at Port for a temporary stage in the yard, then transferred to another vessel to be transported to the final port of discharge. These transit containers typically arrive in the port of Guam from the U.S. or Asia to be 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 from the Micronesian islands are then typically sent back (mostly empty) through the port of Guam and outbound to the 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 4% of total annual revenues.

Port Authority of Guam
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Management’s Discussion and Analysis, continued

Financial Operating Highlights, continued

A visual breakdown of the container cargo Port handled for the years ended September 30, is as follows:



Source: PAG Cargo Statistics.

In FY 2023, Port handled 86K containers, a 4% decrease from the prior year’s container count of 89K. The slight increase in local containers was offset by the decreases in transshipment containers – stuff by 1K and empty by 2K.

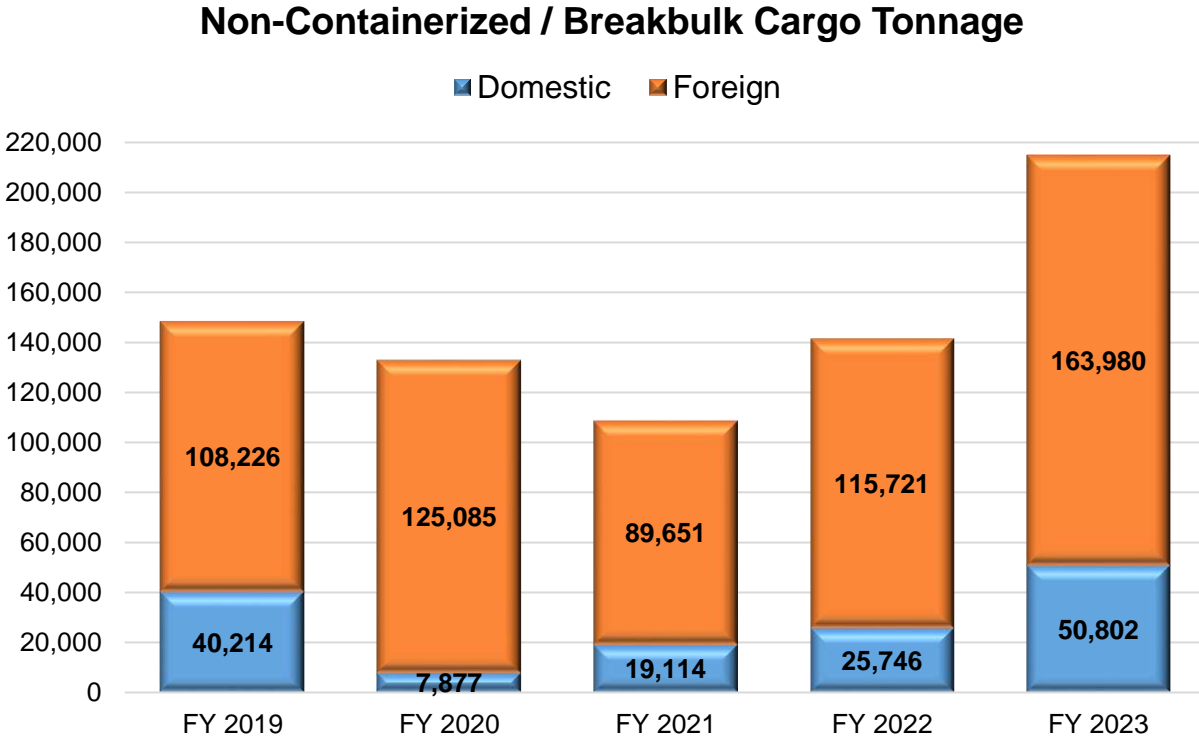
Non-containerized, or breakbulk, cargo refers to the goods that are stowed on board a ship in individually counted units because they cannot fit into shipping containers, or because it is more economical to transport as breakbulk. Breakbulk is charged by tonnage and classified by its origin of either domestic or foreign.

Port Authority of Guam
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Management’s Discussion and Analysis, continued

Financial Operating Highlights, continued

A visual breakdown of the non-containerized/breakbulk cargo Port handled for the years ended September 30, is as follows:



Source: PAG Cargo Statistics.

In FY 2023, Port handled 215K tons of breakbulk – a 52% increase from the prior year’s 141K tons of breakbulk. Domestic breakbulk increased by 25K tons, while foreign breakbulk increased by 48K tons. Though the dollar value of building and construction permits issued and the individual, DOD construction contracts in Guam decreased in FY 2023, existing construction activity continued and was the likely cause for the increase in breakbulk.

Before the operational impact of the COVID-19 pandemic, FY 2019 would be considered the last normal (or base) fiscal year. As evident by the FY 2023 cargo data, container and breakbulk totals were beyond or within FY 2019 cargo activity. The 86K containers Port handled in FY 2023 were 1% higher than the 85K handled in FY 2019, while the 215K tons of breakbulk handled in FY 2023 were 45% higher than the 148K tons handled in FY 2019.

Port Authority of Guam
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Management’s Discussion and Analysis, continued

Financial Operating Highlights, continued

A summary of operating expenses and depreciation is as follows (in thousands):

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|--|-----------------|-----------------|-----------------|
| Operating Expenses | | | |
| Management and administration | \$17,503 | \$15,086 | \$14,877 |
| Operations | 14,807 | 13,375 | 13,656 |
| General expenses | 8,489 | 9,543 | 7,946 |
| Retiree healthcare and other benefits | 6,045 | 7,964 | 6,954 |
| Equipment maintenance | 6,827 | 6,395 | 6,432 |
| Facility maintenance | <u>2,369</u> | <u>2,190</u> | <u>2,142</u> |
| Total operating expenses | <u>\$56,040</u> | <u>\$54,553</u> | <u>\$52,007</u> |
| Income from operations before depreciation | 4,574 | 3,145 | 3,052 |
| | | | |
| Depreciation | <u>\$ 6,189</u> | <u>\$ 6,144</u> | <u>\$ 6,258</u> |
| Loss from operations | (1,615) | (2,999) | (3,206) |

Source: PAG Financial Audits.

During FY 2023, Port’s operating expenses (excluding depreciation) increased by \$1.5M from the prior year. The increases in management and administration, terminal services, transportation services, equipment maintenance, and facility maintenance and stevedoring services, are largely attributed to increases in pension cost.

Utilities increased by \$450K due mainly to the increases in electricity and increases in internet access and email services. The increase in electricity for FY 2023 is due to more accurate readings for the entire fiscal year, with a new meter at one of our load centers. This new meter was installed before the last quarter of prior year FY 2022.

Other increases include depreciation by \$45K and insurance by \$12K. However, other operating expenses decreased as follows: retiree healthcare and other benefits by \$1.9M and general expenses by \$1.5M.

The \$1.5M decrease in general expenses is attributed to the (1) infrequent expenses made in FY 2022 for a bathymetric survey that mapped out and illustrated the underwater terrain of the F1 Dock substructure and the start of the demolition and disposal of five inoperable cranes and sunken barges, as well as to the near completion of the Grant Master Plan Update project in FY 2023.

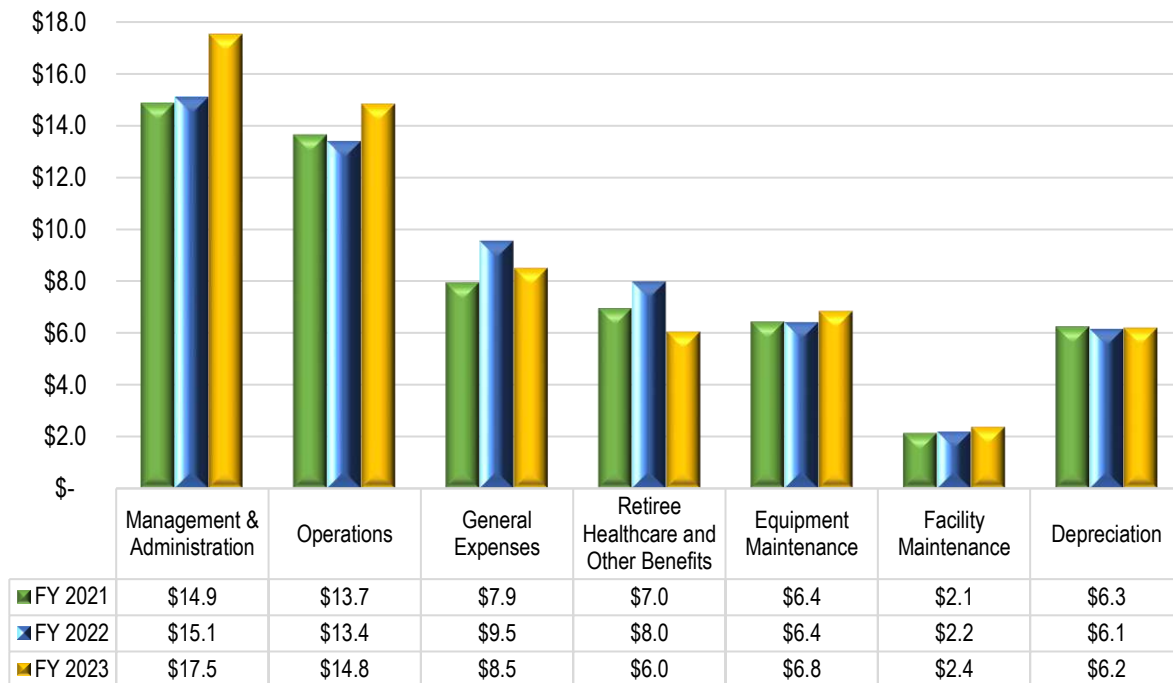
Port Authority of Guam
(A Component Unit of the Government of Guam)

Management’s Discussion and Analysis, continued

Financial Operating Highlights, continued

A visual breakdown of Port’s operating expenses, including depreciation, for the years ended September 30, is as follows:

Operating Expenses (in Millions)



Source: PAG Financial Audits.

A summary of net nonoperating revenues (expenses) and capital contributions is as follows (in thousands):

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|---|----------------|-----------------|---------------|
| Nonoperating Revenues (Expenses) | | | |
| U.S. Government operating grants | \$2,758 | \$16,274 | \$1,996 |
| Interest income (expense), net | 2,629 | (1,453) | (1,144) |
| Other income, net | 382 | 207 | 19 |
| Loss on disposal of property, plant and equipment | (27) | (12) | (117) |
| Impairment loss of depreciable assets | (1,326) | (---) | (---) |
| Total nonoperating revenues, net | <u>\$4,416</u> | <u>\$15,016</u> | <u>\$ 754</u> |
| Income (loss) before capital contributions | 2,801 | 12,017 | (2,452) |
| Capital contributions: | | | |
| U.S. Government capital grants | <u>\$1,794</u> | <u>\$ 561</u> | <u>\$ 219</u> |
| Increase (decrease) in Net Position | 4,595 | 12,578 | (2,233) |

Source: PAG Financial Audits.

Port Authority of Guam
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Management’s Discussion and Analysis, continued

Financial Operating Highlights, continued

With a net \$2.6M in interest income and \$2.8M in U.S. government operating grants, the non-operating activities of FY 2023 resulted in a net revenue of \$4.4M. U.S. Government operating grants of \$2.8M was an accumulation of grants from the Department of Agriculture, Department of Homeland Security, Federal Emergency Management Agency, and Department of the Interior. The majority of net other income consists of a portion of the \$2M received as insurance claim proceeds following Typhoon Mawar.

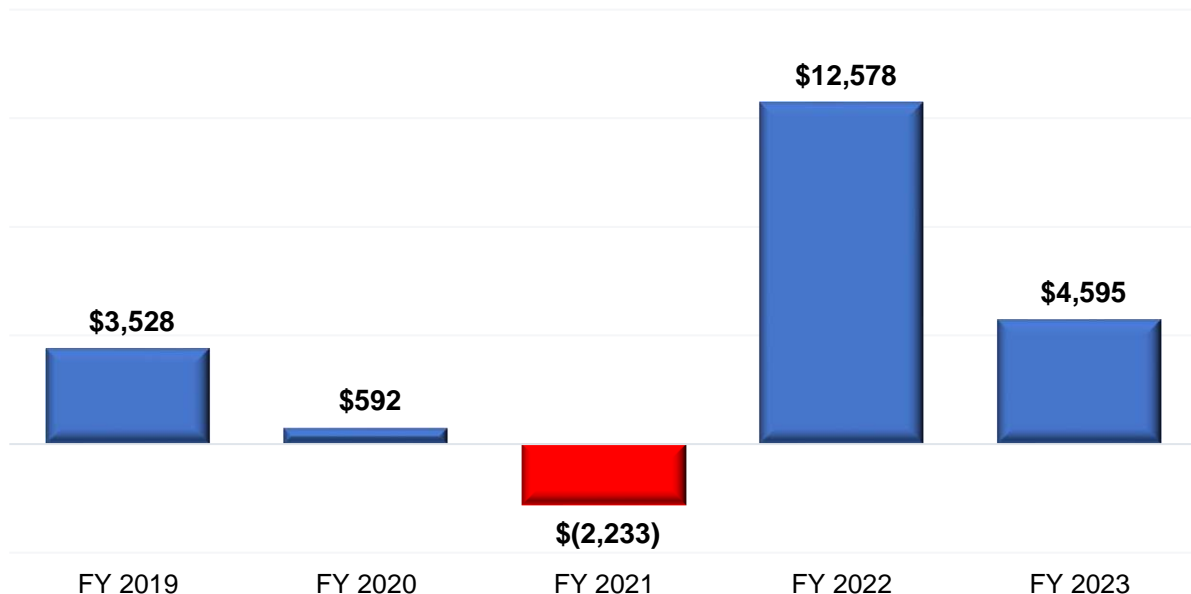
Capital grants from the U.S. Government increased by \$1.2M from the prior year due to \$1.8M received from the U.S. Department of Transportation’s (USDOT) Maritime Administration (MARAD) for the completion of the upgrade to our closed-circuit television (CCTV) surveillance system and our Access Control System (ACS), as well as the purchase of container-handling equipment.

Before depreciation (a non-cash expense), the net result of operating revenues minus operating expenses in FY 2023 was an operating income of \$4.6M. When adding back the \$6.2M non-cash expense of depreciation, the result is a \$1.6M operating loss in FY 2023. This is a slight improvement from the \$3.0M operating loss in FY 2022.

After adding \$4.4M in net nonoperating revenues and \$1.8M in U.S. Government capital grants, Port concluded FY 2023 with a \$4.6M increase in net position (or net income). Port's net position at the end of FY 2023 was \$31.0M – a 17.4% increase from the prior year.

A visual breakdown of Port’s changes in net position (i.e., net income and losses), for the years ended September 30 is as follows:

Change in Net Position (in Thousands)



Source: PAG Financial Audits.

Port Authority of Guam
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Management's Discussion and Analysis, continued

Capital Assets

Port's capital assets, net of accumulated depreciation, made up 41% of total assets – or \$121.6M as of FY 2023. Capital assets include land, equipment, buildings and improvements, and construction work in progress. During FY 2023, new assets and construction activities of \$15.4M were added, including a cumulative \$1.8M in capital construction projects completed and placed in service as capital assets.

Funded through federal, bond, and Port funds, these capital assets are used to provide services to tenants and customers, and for the modernization and maintenance of Port's assets.

As part of Port's vision to meet the island's growth and Management's efforts to ensure Port meets the expectations of our federal, bond, and local stakeholders, the following are updates on some of Port's Capital Improvement Project (CIP) initiatives. Refer to the *Port Modernization and Improvement* section for more CIP initiative updates.

1. Hotel Wharf Rehabilitation and Reconstruction: This rehabilitation will add more than 500 feet of usable wharf water frontage to Port's footprint, thereby providing additional vessel berthing capacity for cargo and cruise ships, allowing for future homeporting of cruise liners, and providing military readiness – where military assets can be received and deployed at a moment's notice. Previously estimated at \$46.3M total and to be funded mainly by Port's revenue bond proceeds, this rehabilitation was temporarily paused as of April 2024.

While aware of the potential consequences of delaying H-Wharf construction, our Board of Directors authorized a temporary pause on H-Wharf in recognition of the imperative need to prioritize the strategic reallocation of our resources and additional funds towards the procurement and deployment of up to three new ship-to-shore (STS) gantry cranes.

2. Golf Pier Repairs and Improvements: The damages recently sustained by Typhoon Mawar deemed the Golf Pier inoperable. As of June 2024, the design and construction cost estimates we developed along with our consulting Owner's Agent/Engineer (OAE) are currently under review by FEMA and the United States Army Corps of Engineers (USACE).. We are currently working with our OAE to estimate repair costs and an alternative replacement cost. Replacement would bring the Golf Pier facilities to current codes and standards, which would meet our standard of resiliency.
3. Waterline Replacement and Relocation: The replacement and relocation of 50-year-old waterlines shall improve water pressure to meet local building codes and the National Fire Protection Association and the U.S. Coast Guard's requirements for firefighting operations, and address the 15 major leaks that were identified in the past three years. As of June 2024, pipe installation has progressed to within the yard and the schedule of construction activity is limited so as to not disrupt Port operations. Estimated for completion in December 2024, this \$6M project is funded by Port's revenue bond proceeds.

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Management's Discussion and Analysis, continued

Capital Assets, continued

4. EQMR Building Repairs and Upgrade: To address potential hazards to personnel working within the Equipment, Maintenance and Repair (EQMR) Building, repairs and upgrades will harden 79,000 square feet of warehouse space, repair the mechanical and electrical systems, reduce levels of lead, and address the existing cracks and spalling affecting the overall structural integrity of the building. Estimated for completion in September 2024, this \$4.0M project is funded by Port's revenue bond proceeds and a Hazard Mitigation Program Grant.
5. Warehouse 1 Repairs: With extensive damage to the interior and exterior concrete, a leaking roof, mold, nonoperational fire protection system, and plumbing and electrical systems in marginal condition, Warehouse 1 was deemed in poor condition. As of May 2024, the procurement process has been initiated on the architectural and engineering (A&E) design's reduced scope of work and the Attorney General of Guam has been notified. This \$4.2M project will be funded by Port's revenue bond proceeds and a Hazard Mitigation Program Grant.
6. Fuel Pipeline Connectivity: In July 2023, a kick-off meeting was held to mark the beginning of the A&E design project to connect the fuel line between the Golf Pier and the F-1 Fuel Pier. As of September 2023, our A&E design consultant submitted a draft topographic survey and is working to verify existing utilities. With an estimated cost of \$3.0M, \$2.4M will be funded by the U.S. Economic Development Authority (EDA), and Port will fund \$603K.
7. Financial Management System (FMS) Upgrade to Oracle JDE Enterprise One (E1): In May 2021, Port's E1 system went live. This \$2.5M project was for an upgrade from the prior 20-year-old Oracle JDE World (AS400) FMS. While an FMS is an integral part of this overall system, it is only one aspect of a business. However, E1 has the software and processes used to run every aspect of a business and connect those to the accounting ledgers, such as human resources, procurement, fixed assets, maintenance, and repair. We continue to enhance E1's full capabilities through the use of its many modules, and are currently working on module updates for vessels and special service requests. Recently, we upgraded our E1 system and Vertex software to the newest versions, as well as implemented a multi-factor authentication program as part of our business continuity plan. We are also exploring additional applications such as content management for document retention.
8. Removal of Port Inoperable Assets Project: This \$2.6M project was for the demolition and proper disposal of two STS gantry cranes, two rubber-tired gantry (RTG) cranes, the Mobile Harbor Crane, and both sunken barges at F-6. Removing these inoperable assets will allow Port to accommodate an increase of cargoes in its terminal facilities and the additional vessels calling Port. As of June 2024, all five cranes and one barge were demolished; and proper disposal is ongoing.

Port Authority of Guam
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Management’s Discussion and Analysis, continued

Capital Assets, continued

9. CCTV and Access Control Systems Project: In December 2022, the installation and upgrade of a new closed-circuit television (CCTV) surveillance system and replacement of our Access Control System (ACS) was completed. To enhance maritime and security screening and monitoring, this \$1.2M project was funded through a combination of funds from Port, the U.S. DHS/FEMA Port Security Grant Program (PSGP), and USDOT MARAD Grant Cooperative Program.

In July 2018, Port obtained \$76.7M in revenue bond proceeds to pay for several important capital improvement projects. However, the recent surge of inflation has severely impacted construction costs, especially for projects that received funding prior to 2021. Procurement for many of these projects resulted in submitted bids and proposals having greatly exceeded the amounts initially allocated, thus, requiring us to redirect funding from other sources to account for the shortfall. In some cases, the projects were cancelled or scaled back considerably.

Debt Administration

As of September 30, 2023, Port had \$64.1M in outstanding revenue bonds, a decrease from the \$67.0M balance as of FY 2022, due to principal payments.

Under the bond indenture of the 2018 Series Revenue Bonds, Port is required to maintain a minimum debt service coverage of 1.25 in relation to net revenues versus annual debt service. A summary of Port’s annual debt service coverage (DSC) for the year ended September 30 is as follows:

| | |
|--|--------------------|
| | <u>2023</u> |
| Revenues ¹ | \$ 52,380 |
| Less Operations & Maintenance Expenses | <u>50,677</u> |
| Net Revenues | 1,703 |
| | |
| Plus Other Available Monies | <u>11,489</u> |
| Net Revenues & Other Available Monies | <u>\$ 13,192</u> |
| | |
| <u>Rate Covenant:</u> | |
| Net Revenues & Other Available Monies | \$ 13,192 |
| Total Annual Debt Service | \$ 5,753 |
| | |
| Annual Debt Service Coverage | ✓ 2.29 |
| Required Debt Service Coverage | 1.25 |

Source: PAG Financial Audit & PAG Enterprise Resource Planning System.

¹ Except for crane surcharges, facility maintenance fees, and public marina revenues, all other gross revenues of Port were pledged to secure the payment of bond principal and interest.

Port Authority of Guam
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Management’s Discussion and Analysis, continued

Debt Administration, continued

Below are the underlying credit ratings on Port’s outstanding 2018 Series Revenue Bonds.

| | S&P | Moody’s |
|---------|----------------|----------------|
| Rating | A | Baa2 |
| Outlook | Stable | Stable |

In September 2021, Standard & Poor’s (S&P) Global Ratings upgraded its outlook of Port from negative to stable and affirmed its 'A' long-term rating on our outstanding series 2018 Port Revenue Bonds.

As of September 28, 2023, S&P Global Ratings maintained its outlook of Port as stable and its long-term rating on our outstanding series 2018 Port Revenue Bonds as 'A'. This maintained rating reflects S&P Global’s maintained opinion that our enterprise risk profile is strong, as follows:

- Very Strong Economic Fundamentals – “The port is highly essential, playing a critical role in Guam's economic vitality and on-island military operations and expansion, and in general for the provision of basic supplies for residents and visitors.”
- Adequate Market Position – “The port lacks any meaningful regional competition, including nearby ports in Saipan and Majuro. [...] processing approximately 90% of Guam's total volume of goods supplies, [...] The port has experienced generally stable volume since 2020, which we expect will continue given macroeconomic trends in Guam, including the military operations, and the expectation that the recent typhoon will not materially change overall port activity.”
- Strong Governance – “We consider the authority's management and governance strong, reflecting our view of the port's strategic positioning, risk and financial management, and organizational effectiveness. The authority has historically operated in a fiscally prudent manner, implementing tariff increases as needed, building and maintaining cash reserves, and obtaining grant funding that minimizes reliance on debt issuance to meet capital needs.”

S&P Global maintained its opinion that our financial risk profile is strong due to “strong financial performance, strong debt and liabilities capacity, and adequate liquidity and financial flexibility.” With consideration of S&P Global’s calculations of Port’s DSC, and that we will cash fund some capital projects in FY 2024, including our 10% share of typhoon damage-related projects, S&P Global still expects that “the port's liquidity will remain at levels supportive of the port's current financial profile.”

In May 2021, Moody’s Investors Service upgraded its outlook of Port from negative to stable and affirmed its Baa2 rating on our series 2018 Port Revenue Bonds.

As of September 27, 2023, Moody’s Investors Service maintained its outlook of Port as stable and its rating on our series 2018 Port Revenue Bonds as Baa2. Based on our 3-year average of FY 2020 – FY 2022, Port’s scorecard-indicated outcome is A3 – which is above the assigned rating of Baa2. Moody’s constrained Port’s credit rating due to our exposure to weather-related events (e.g., typhoons) and “linkages to the credit quality of the Government of Guam; and the high customer concentration.” Moody’s attributed the following as our credit strengths:

Port Authority of Guam
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Management’s Discussion and Analysis, continued

Debt Administration, continued

- Monopoly Position as the Sole Commercial Port in Guam – “The port derives credit strength from its role as the sole commercial port in Guam, handling around 90% of the territory’s imported cargo and a significant portion of military cargo. [...] given the critical role of the port in sustaining the island, [the loss of a single key customer or an unexpected decline in volumes] are extremely unlikely.”
- Low Leverage – “Excluding pensions, the port's direct leverage is low and supportive of its credit profile.” At the end of FY 2023, we had \$64.1M in outstanding revenue bonds.
- Solid Liquidity – “The port authority's liquidity position is healthy. Fiscal 2022 financials show unrestricted cash and cash equivalents of more than \$33 million, with unrestricted and discretionary reserves of \$57.5 million;” Moody’s further noted that Port “has proven resilient through the coronavirus pandemic. Despite an effective closure of the island's tourism economy, the port's operating revenue between 2020 and 2022 averaged \$55.8 million, in-line with pre-pandemic figures.”

Port Modernization and Improvement

Port’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 were as follows:

- Replacement of gantry cranes at the end of useful life to maintain continuous, uninterrupted cargo movement;
- Replacement of the fuel piers;
- 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; and
- Expansion of existing facilities to support fishing and cruise line industries.

As part of the modernization program, Port obtained \$76.7M in revenue bond proceeds, in July 2018, to pay for capital improvements 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 included the following:

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

Port Authority of Guam
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Management's Discussion and Analysis, continued

Port Modernization and Improvement, continued

The following are updates to Port's modernization initiatives:

1. Replacement of Gantry Cranes: We are in the process of acquiring three new STS gantry cranes to replace the current cranes, which are expected to expire in 2029. While our three, existing gantry cranes can handle the forecasted container volumes associated with the military buildup, there is limited capacity to accommodate additional breakbulk volumes, as well as minimal flexibility for downtime to address crane maintenance and crane breakdowns. We acquired our existing cranes refurbished in 2009, but they were manufactured in 1983/1984. In order to maintain continuous, uninterrupted cargo movement, we have been working diligently to explore every possibility for the funding and replacement of our three aging STS gantry cranes.
2. New Administration Building: Constructed over 50 years ago and with the extent of deterioration, renovating the existing Administration building was deemed cost prohibitive and would be disruptive to operations (even if completed in phases). The more practical solution of constructing a new building, adjacent to the existing building and roughly estimated at \$15M – \$20M, is currently on hold pending management's decision.
3. Agat Marina's Dock B Construction: In May 2024, we held a ribbon-cutting ceremony to unveil Agat Marina's rehabilitated Dock B, new restroom facilities, and CCTV cameras. The rehabilitated Dock B provides an additional 48 slips for recreational boats and is designed to withstand wind, sea action, boat docking, and other loads throughout a 20-year design life. This \$1.5M rehabilitation was funded with Port funds and a U.S. Fish and Wildlife Service grant, via Guam DOAg.

The newly built restroom facilities, complete with outdoor showers, provide our community and tourists better accommodations while at the marina. The new restroom facilities were fully funded by Port at \$345K. The installation of CCTV cameras provides 24-hour surveillance to enhance the security and protection of all marina users, and was fully funded by Port at \$108K.

4. Harbor of Refuge Installation of Mooring Blocks: In July 2023, we closed out this project with the reimbursement of a \$621K DOAg Fish and Wildlife Boating Infrastructure Grant and \$249K in Port funds, for an overall cost of \$870K. With long-term moorage structures in critical condition (including moderate to severe corrosion of steel framing members), this project installed additional moorings.
5. Fendering System Hardening Project: In January 2023, we gave the awarded contractor the notice to proceed. This project will be funded by a \$604K FEMA Hazard Mitigation Grant and \$201K from Port.
6. Replace Replacement of 125 Each Reefer Outlet Receptacles: Incoming refrigerated containers, known as reefers, are forecasted to grow with the population, which will receive a boost with the military buildup. This \$600K project will replace 125 reefer outlet receptacles with funding from Port's revenue bond proceeds.

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Management's Discussion and Analysis, continued

Port Modernization and Improvement, continued

7. Warehouse I Hardening Project: In April 2023, we gave the awarded contractor the notice to proceed. As of September 2023, this project is ongoing. This \$550K project will be funded by a \$386K FEMA Hazard Mitigation Grant and Port funds.
8. Welding Shop Repairs (Phases I and II): As of June 2024, we are awaiting the Guam State Historic Preservation Office's (SHPO) concurrence that would allow us to proceed with construction. Constructed over 50 years ago, a more detailed structural assessment is required before construction can begin to repair our welding shop – interior and exterior concrete cracks and spalls, interior and exterior painting, replace exhaust window grills, and repair the bathroom concrete base. Estimated at \$850K, this project will be funded with Port funds in addition to a \$392K grant from the U.S. Department of the Interior Office of Insular Affairs (DOI-OIA) Maintenance Assistance Program (MAP).
9. Acquisition of TWIC Readers and Credentialing System: Several Transportation Worker Identification Credential (TWIC) handheld reader units were already procured and delivered to the Port Police Division. In July 2023, we procured additional TWIC handheld units, accessories, and a 36-month warranty.
10. Acquisition and Installation of a Radar Intrusion and Vessel Tracking System: In September 2023, a radar intrusion and vessel tracking system gearbox was installed above our Harbor Master's Office. This system will enable us to conduct effective surveillance of both outer and inner Apra Harbor and adjacent approaches from the sea – further improving our measures to protect critical Port infrastructure, private sector facilities, military assets, and the personnel of Port and Port users. This \$347K project is funded by an FY 2021 PSGP award and matched with Port funds.
11. Terminal Gate Booth Replacement: In November 2022, construction of three new concrete terminal gate booths (to replace the smaller, corroded metal booths) were completed for \$200K, including \$160K in contract work. The new booths have increased in size for improved operations functionality, as they are the entry and exit points for all inbound and outbound cargo.
12. Agat Marina Northside Catwalk Design-Build: In November 2022, repairs to the Agat Marina Northside Catwalk were completed for \$91K in Port funds, including \$80K for contract work. This includes repairs such as installing new cylindrical fenders on the north and south side; and removing and disposing of existing dilapidated, treated lumber fenders, tires, corroded bolts, and miscellaneous woods/steel supports.

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Management's Discussion and Analysis, continued

Key Factors in FY 2023 Operating Results and FY 2024 Future Outlook

We value transparency and accuracy in our financial disclosures. The working capital reserve account is not an indenture requirement and has no specific required amount. Although Port created a trustee account, we have maintained substantial cash reserves since the issuance of the 2018 Series Revenue Bond. Port established several reserve accounts and together with other cash deposits exceeded 800 days of operating funds, currently totaling roughly \$120 million, ensuring fiscal prudence and bond compliance.

Working Capital Reserve Account

Since the issuance of the 2018 Series Revenue Bonds, we have maintained cash reserves totaling \$53.1M as of FY 2023 end. Our bond indenture's reference to a "Working Capital Reserve Account" is optional and does not require a balance.

Prior to bond issuance in 2018, Port established a working capital reserve account and implemented an internal financial policy to cover cash flow variations and unforeseen expenses.

Recognizing the need for an unrestricted reserve fund, Port established the General Reserve Fund in 2020. This fund, with a \$23.9M balance as of FY 2023, covers unexpected events, income losses, and unbudgeted expenditures, such as Typhoon Mawar repairs.

Port's bond ratings have significantly improved over the years, and this issue has never been raised by bond raters.

We appreciate the Public Auditor's diligence and are committed to resolving this matter to uphold the integrity of our financial reporting. We believe this statement addresses the Public Auditor's concerns and clarifies the true state of Port's finances, as reflected in the FY 2023 Financial Audit.

Distinguished Local Government Leadership

In February 2024, our General Manager was awarded the national Association of Government Accountants' (AGA) 2024 *Distinguished Local Government Leadership Award*. This special honor formally recognizes local government professionals who exemplify and promote excellence in government financial management and who have demonstrated outstanding leadership in enhancing sound financial management legislation, regulations, practices, policies, and systems within the past year.

Typhoon Mawar

From May 19 through May 28, 2023, Port operations were put on hold in preparation for and as a result of Typhoon Mawar. With five cargo-handling piers, two fuel piers, and three marinas, Port sustained significant damage to its facilities and assets as a result of Mawar. Even so, Port continued to incur fixed charges such as power, water, salaries and wages of management and employees, payroll taxes, medical insurance, and other fixed charges related to employees' salaries.

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Management's Discussion and Analysis, continued

Key Factors in FY 2023 Operating Results and FY 2024 Future Outlook, continued

Typhoon Mawar, continued

Despite the trail of destruction left by Mawar, we worked tirelessly to get port back up and operational in order to service the needs of our island community. In that resilience, and with the support of our Board, our federal and local partners, and our industry partners, we were able to resume vessel operations only four days after the typhoon's assault on Guam.

While cargo operations are slowly moving back to normal, we are still making efforts to recover from the damages sustained by Typhoon Mawar (such as with the Golf Pier, Cementon, F-1 Fuel Pier, Hotel Wharf, and Wharves F-3 through F-6) and continue to work on much-needed CIP to ensure operational sustainability.

Maintaining the island's supply chain remains our top priority to ensure goods and commodities continue to flow into our community. As such, we launched major and additional efforts to lessen the hardship and negative economic impacts of Typhoon Mawar on our employees, our local businesses, and our industry partners, as follows:

- Extended the free storage period for cargo at Port because of the island's limited access to electricity, customers' damaged warehouses, trucking companies' limited operations due to absent personnel, and closed or limited private business services. Extended free storage was allowed for the following:
 - Full and empty containers,
 - Reefer containers,
 - Hazardous containers, and
 - Breakbulk cargo (e.g., construction materials, heavy equipment, and vehicles).
- Rented additional generators from private companies to assist in the preservation of perishables stored in our terminals and to power Port and its fuel and cement customers during island power outages, which also increased our fuel consumption. This was especially critical when all of our five load center generators were down. Moreover, we had to borrow additional generators from FEMA as well.
- Provided *Open Gate* operations for several weekends in an effort to push out commodities into our island community. These weekend operations were done with no additional cost to our customers. The labor, employee insurances, equipment, utility, and fuel costs incurred during those weekends resulted in zero revenues. We absorbed the expenses for these costs.
- Disconnected, regularly and voluntarily, from island power to lessen the Guam Power Authority's (GPA) power load while GPA worked around the clock to reconnect the island's electricity and manage its already-limited load capacity. This also increased our fuel consumption.
- Purchased and installed six washers and six dryers at Port for the use of our employees while GPA and Guam Waterworks Authority (GWA) worked around the clock to reconnect the island's electricity and water.
- Provided access to fuel for essential Port employees, which was an improvement from the extraordinarily long lines otherwise endured at local gas stations.

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Management's Discussion and Analysis, continued

Key Factors in FY 2023 Operating Results and FY 2024 Future Outlook, continued

Typhoon Mawar, continued

- Prepared cooked meals for Port's day and night shifts, as well as distributed drinking water and ice in order to lessen the compounded hardships of living with no electricity, no running water, limited safe drinking water, food spoilage, bare grocery shelves, and the limited availability of food establishments.

Concerning the expenses incurred from Mawar debris and damages, as of FY 2023:

- We are receiving federal disaster assistance from FEMA through continued communication and coordination concerning the repair of permanent damages to our buildings, equipment, vehicles, and infrastructure.
- We received \$2M in insurance claim proceeds, including business interruptions. We continue to work with the insurance adjuster to identify the final insurance reimbursement amount.

Procurement Delegation

Through a close working relationship with Port Management, the Chief Procurement Officer (of the General Services Agency) restored a full delegation of procurement authority to Port in May 2020. In 2006 – fourteen years prior to the restored delegation – Port lost its procurement delegation when the Chief Procurement Officer did not delegate procurement authority. Since 2020, the Chief Procurement Officer has continued to renew the full delegation of procurement authority to Port for fiscal years 2021, 2022, 2023, and 2024. This delegation of procurement authority is vital to procuring critical goods and services in connection with Port's Modernization Program.

Training

In support of Port's vision to be a first-class facility in the region and handle cargos safely, efficiently, and sustainably, periodic training is provided for Port management and employees.

In September 2023, the latest Multi-Agency Strike Force Operation (MASFO) exercise was conducted within our terminal yard and led by the U.S. Coast Guard (USCG), Sector Guam. MASFO's main objective is to ensure compliance with federal and territorial regulations pertaining to the safe shipment of cargo by leveraging the jurisdictional authorities of all participating agencies. A total of 27 personnel from 11 agencies took part in this exercise, including our Port Police, Customs and Quarantine, Transportation Security Administration (TSA), and Guam DHS.

Port continues certification training for crane operators, hazardous waste operations, incident response to terrorist training, and prevention and response to suicide incidents. A number of crane operators were identified as eligible for retirement, which would impact productivity if all were separated around the same time. To ensure the flow of goods are not disrupted, Port reinstated on-the-job training for crane operators, and willing employees (within the other Operations divisions) were identified to be cross-trained.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Key Factors in FY 2023 Operating Results and FY 2024 Future Outlook, continued

Training, continued

Port continues its cross-training program to maximize the limited resources of Port's Operations division with increased capability. Stevedores were cross-trained as Tractor Operators and would be used as needed, and the Crane Operator certification was extended to all port operations personnel. The cross-training program extended into the Maintenance Division, where Fleet Mechanics were cross-trained in the Crane Mechanics section, just as much as the Corrosion section was trained in the Welding section.

Port Master Plan Update

In April 2023, Port's Board of Directors unanimously adopted the Port 2023 Master Plan. The 2023 Master Plan is focused on ensuring the future readiness and resiliency of a modernized facility through the hardening of Port assets and resources to address national security concerns from the current and anticipated geopolitical environment, as well as addressing continued professional and technical services oversight and support to address port sustainability and resiliency, environmental initiatives to reduce Port's carbon footprint and reduce its greenhouse effects, and strategic goals toward zero waste improvements. The master plan is currently under review by the Guam Bureau of Statistics and Plans, after which it will be forwarded to the Guam Legislature for the final review and approval.

Since 2013, more than \$100M has been invested in the Port Modernization Program, with funding from U.S. DOT MARAD, DOD, and Port funds.

Port Sustainability

All ports emit carbon dioxide and air pollutants through cargo-handling equipment, related facilities, and berthing vessels. As such, sustainable port development is a critical issue for ports worldwide from an economic, social, and environmental standpoint. Port has been working on projects addressing air pollution; dust; noise, and water pollution; re-use and recycling initiatives; protecting freshwater resources; targeted marine litter initiatives; soil and sediment contamination; protecting habitats; and enhancing biodiversity. Included in the long-range CIPs added to the Port 2023 Master Plan, is a solar photovoltaic (PV) energy study that will predict the feasibility of installing a PV system on our buildings for green stewardship and reducing our carbon footprint. Port's sustainability initiatives include the following:

- In March 2023, we installed three FloWater refill stations throughout our facilities. With advanced water purification and sanitizing technology, these FloWater stations provide us with great tasting drinking water. In addition to potential savings of \$6K annually, as of September 2023, the volume of water consumed at our FloWater refill stations is the equivalent of saving approximately 29,201 empty water bottles (or more than 1,216 cases) from ending up in our island's landfill.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Key Factors in FY 2023 Operating Results and FY 2024 Future Outlook, continued

Port Sustainability, continued

- We will replace four terminal yard tractors with 15 Tier-4 ultra-low sulfur diesel (ULSD) terminal tractors and add five top lifters with Tier-3 ULSD levels to our fleet. Tier-4 engines are required to run off of ULSD, which contains only 15 parts per million of sulfur – the U.S. EPA's diesel standard. According to USEPA, diesel standards collectively reduce harmful sulfur emissions from both on-road and nonroad diesel sources by more than 90%. Four ULSD terminal yard tractors are expected to be received by April 2024. These tractors will be funded by U.S. EPA's Diesel Emissions Reduction Act (DERA) Program grant.
- Five inoperable cranes and one sunken barge were dismantled and are being readied for proper disposal from Port property and off the island for recycling. Not a single piece of metal taken from these cranes or any debris from the barges will remain in Guam.

Gantry Crane Purchase and Maintenance

For the past five years, we have been working diligently to explore every possibility for the replacement of our three aging STS gantry cranes and various yard equipment. Our efforts have included an aggressive approach in all of our participation in national forums and face-to-face meetings with federal partners in past years – emphasizing the crucial need for robust infrastructure support as a matter of commerce, economic growth, and now (more than ever) national security with growing geopolitical tensions. When we experienced the downtime of all three gantry cranes, it was a stark reminder of the vulnerabilities in throughput capacity that would impact military readiness programs.

A crane sensitivity analysis, done by our OAE, provided the following inside look on the impact to the military buildup should our aged gantry cranes become inoperable. Currently, our three aging cranes are capable of handling approximately 192,000 containers per year, or approximately 64,000 lifts per crane per year.

- If all three STS cranes are operating and are replaced as they reach their useful life, there is no impact on the military buildup's cargo demand because our berth throughput capacity is higher than the forecasted buildup demand.
- If one STS crane is out of service for a long period of time, the berth throughput capacity would significantly decrease to 128,000 containers per year, which is lower than the forecasted buildup demand. With only two cranes in operation, an annual deficit of around 60,000 containers would be delayed to future years. To recoup, the military buildup could be delayed for up to four years and no additional capacity would be available for future live action operational readiness.
- If two STS cranes are out of service for a long period of time, the berth throughput capacity would dramatically decrease to a limit of only 64,000 containers per year, which is significantly lower than the organic demand for Port. With only one crane in operation, we would not have sufficient crane capacity to handle the organic cargo demand – let alone handle the additional demand from the military buildup.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Key Factors in FY 2023 Operating Results and FY 2024 Future Outlook, continued

Gantry Crane Purchase and Maintenance, continued

As a strategic asset in the national supply chain and a designated strategic port, the port of Guam plays an essential role in ensuring the effectiveness and readiness of military operations. We remain committed to working closely with the Department of Defense and other stakeholders to ensure that our infrastructure is capable of supporting commercial activities and resilient enough to meet the demands of national security imperatives.

In August 2023, we submitted a grant application to USDOT's Mega Program to acquire three gantry cranes. The Mega Program supports large, complex projects that are difficult to fund by other means and likely to generate national or regional economic, mobility, or safety benefits. As of September 2023, our application was under review and consideration for federal funding. We are also seeking a waiver to the Buy American Act to procure abroad because domestic availability of the necessary cranes would come at an unreasonable cost considering Guam's remote location. The Buy American Act is required only if federal funds are used to acquire the cranes.

Our existing gantry cranes were manufactured in 1983/1984 – making them at least 40 years old. Port acquired these cranes refurbished in 2009. As such, we are required by Guam Code to maintain the services of a performance management contractor (PMC) to manage these aging cranes' performance, operation, and maintenance.

Federal Grants and Grant Opportunities

Our management worked closely with the Planning division and respective division heads on the following federal grants:

1. Rebuilding American Infrastructure with Sustainability and Equity (RAISE) Grant: USDOT MARAD awarded Port a \$17.9M RAISE grant. Estimated at \$22.4M, the \$17.9M RAISE grant, supplemented with Port's share of \$4.5M, will fund a project to upgrade wharves F1 through F6 to support STS gantry crane operations. This will address the sheet piles and concrete cap spalling at the face of wharves F2, F3, F4, and F6, as well as the deteriorating structure of the F1 Fuel Pier. As of September 2023, our OAE was engaging with a local consultant to obtain an environmental assessment, as mandated by the National Environmental Policy Act (NEPA).
2. MARAD America's Marine Highway Grant: As of September 2023, we received two (of three) 10-ton capacity side-loaders and two 40-ton capacity top-loaders. To follow are five 5.5-ton forklifts; one 180-foot boom lift; nine container yard tractor trailers; and two 40-plug mobile reefer generators. In addition to \$3.6M in Port funds, a \$5.7M grant from USDOT MARAD's America's Marine Highway Program (AMHP) was awarded for the Guam Marine Transportation Enhancement Initiative to reduce congestion, alleviate supply chain bottlenecks, and move goods more quickly from ships to shelves.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

Federal Grants and Grant Opportunities, continued

3. Office of Local Defense Community Cooperation (OLDCC) Grant: In August 2023, OLDCC [formerly the Office of Economic Adjustment (OEA)] awarded Port a \$1.5M grant for a comprehensive two-phase in-water infrastructure feasibility study and a military support assessment of Area A (tank farm) and the Hotel Wharf.
4. FY 2022 Port Security Grant Program: In September 2022, US DHS FEMA awarded Port with \$564K from its FY 2022 PSGP grant. The PSGP funds will be used for the following projects:
 - a. Unmanned Aerial Vehicles (Drones) – Aerial surveillance of both the landside and harbor will allow Port to effectively identify any potential threats to critical assets and human life. This project will directly support Guam's Area Maritime Security Plan (AMSP) in monitoring and preventing any transportation security incidents (TSI) and any potentially harmful acts that may disrupt the flow of essential goods into Guam. As of September 2023, Port Police was drafting a drone policy to submit to FEMA. FEMA must approve this policy before we can commence with procurement of the drones.
 - b. Primary Communications Replacement of Motorola Radio Units – Modern, reliable units will be issued to Port Police, Port Managers, Cabras Island Facility Security Officers, the U.S. Coast Guard, and pertinent GovGuam agency partners to allow seamless, real-time and on-demand communications within Apra Harbor and to all GovGuam, federal, military, and private sector emergency managers and first responders. As of September 2023, Port Police is working with the awarded vendor for the delivery of the radio units and accessories.
 - c. Integrated Digital Enhanced Network (iDEN) Technology Redundant Interoperable Communications Systems Service – iDEN technology will allow Port to have direct access and link to DOD components, federal agencies, and private sector partners that deploy the same system. An iDEN will enable seamless communication within the entire Port property and throughout the entire island of Guam. Since October 2022, iDEN services are ongoing.
5. DOI-OIA MAP: In May 2023, contracts were awarded to three different companies to provide an indefinite quantity of generator parts within the budget of a \$165K grant under the Generator Maintenance and Sustainment Program.

Port's Organizational Culture

We conducted the 4th annual employee survey of our organizational climate in December 2023 with an 84% participation rate – 313 out of 372 employees completed the survey. While 98% of our employees reported positive work experiences (a 1% increase from the previous year), employee morale decreased from 98% in 2022 to 91% in 2023.

In response to a new question on work-life balance, 88% responded positively; thereby, indicating that most employees are satisfied with their balance – which aligns with our directives to prioritize employee well-being, even more so during recovery periods.

Port Authority of Guam
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Management’s Discussion and Analysis, continued

Port’s Organizational Culture, continued

In light of our recovery efforts following Typhoon Mawar, 93% of our employees felt that their work environment was safe, and a similar percentage felt well-informed throughout the recovery process. Furthermore, 91% reported having the necessary resources to perform their jobs safely, and 90% felt that management was concerned about their safety and well-being during these efforts.

While we have made positive strides in our overall work experience, the decrease in morale reminds us that our success is deeply connected to our employee’s well-being and job satisfaction. We are dedicated to continuous improvement and fostering a workplace that excels in productivity, as well as promotes a positive and supportive organizational culture suitable for all Port Strong employees!

In response to this recent annual survey, our General Manager immediately initiated employee focus groups led by division heads to better understand employee sentiment, thus gaining deeper insight into our employees’ concerns and expectations. Management has since initiated quarterly pulse surveys to obtain feedback on the current climate and identify areas for improvement, as well as hosting physical fitness events aimed at promoting health and wellness within Port.

Accountability Reporting

Our efforts to remain transparent and accountable with the people of Guam have been recognized at both the national and local chapter of AGA. The citizen-centric report (CCR) was created by the National AGA to simplify government financial information in order to help citizens better understand the services provided by their government and at what cost. A Guam public law later mandated that a CCR is due from every government entity no later than 60 calendar days after the release of each fiscal year’s independent financial audit report.

On a national level, our CCR has earned AGA’s “Certificate of Excellence in Citizen-Centric Reporting” for the 3rd consecutive year – for 2020, 2021, and 2022. On a local level, our CCR has earned the AGA Guam Chapter’s “Excellence in Citizen-Centric Reporting” for three fiscal years – 2019, 2021 and 2022.

Contacting Port’s Financial Management

The MD&A is intended to provide information concerning known facts and conditions affecting Port’s operations. This financial audit report provides a general overview of Port’s finances and demonstrates accountability for the funds received and spent.

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

Port Authority of Guam
(A Component Unit of the Government of Guam)

Statements of Net Position

| | September 30, | |
|--|----------------------|----------------------|
| | <u>2023</u> | <u>2022</u> |
| Assets and deferred outflows of resources | | |
| Current assets: | | |
| Cash and cash equivalents - unrestricted | \$ 28,566,850 | \$ 33,180,401 |
| Cash and cash equivalents - restricted expendable | <u>52,457,079</u> | <u>51,912,182</u> |
| Total cash and cash equivalents | 81,023,929 | 85,092,583 |
| Accounts receivable, net of allowance for doubtful accounts of \$313,048 (\$298,963 in 2022) | 9,675,564 | 6,323,425 |
| Lease receivable | 1,136,808 | 1,118,837 |
| Federal receivables | 2,770,123 | 1,010,783 |
| Prepaid expenses | <u>53,945</u> | <u>41,636</u> |
| Total current assets | 94,660,369 | 93,587,264 |
| Cash and cash equivalents - restricted expendable | 43,478,006 | 44,626,093 |
| Replacement parts inventories, net of allowance for obsolescence of \$260,007 (\$213,048 in 2022) | 1,005,653 | 724,777 |
| Lease receivable, net of current portion | 36,781,344 | 37,918,152 |
| Lease asset, net | 275,627 | --- |
| Depreciable capital assets, net | 91,829,752 | 96,880,279 |
| Nondepreciable capital assets | <u>29,754,448</u> | <u>18,592,806</u> |
| Total assets | <u>297,785,199</u> | <u>292,329,371</u> |
| Deferred outflows of resources from pension | 22,908,372 | 9,546,487 |
| Deferred outflows of resources from other post-employment benefits | <u>21,808,688</u> | <u>28,805,983</u> |
| Total deferred outflows of resources | <u>44,717,060</u> | <u>38,352,470</u> |
| Total assets and deferred outflows of resources | <u>\$342,502,259</u> | <u>\$330,681,841</u> |

See accompanying notes.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Statements of Net Position, continued

| | September 30, <u>2023</u> | September 30, <u>2022</u> |
|--|------------------------------|------------------------------|
| Liabilities, Deferred Inflows of Resources and Net Position | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 2,820,000 | \$ 2,685,000 |
| Accounts payable, trade and others | 4,090,157 | 3,633,907 |
| Security deposits and other payables | 299,405 | 424,927 |
| Accrued payroll and withholdings | 482,291 | 447,334 |
| Current portion of accrued annual leave | 1,639,899 | 1,430,311 |
| Unearned revenue | <u>187,315</u> | <u>381,603</u> |
| Total current liabilities | 9,519,067 | 9,003,082 |
| Long-term debt, net of current portion | 61,238,477 | 64,295,012 |
| Net pension liability | 73,373,540 | 54,733,058 |
| Total collective other post-employment benefits liability | 90,395,007 | 107,471,269 |
| Accrued annual leave, net of current portion | 775,529 | 906,400 |
| Accrued DCRS sick leave | 1,771,817 | 1,752,616 |
| Lease liability | <u>279,303</u> | <u>---</u> |
| Total liabilities | <u>237,352,740</u> | <u>238,161,437</u> |
| Deferred inflows of resources from leases | 37,378,079 | 38,789,581 |
| Deferred inflows of resources from pension | 2,886,803 | 6,466,534 |
| Deferred inflows of resources from other post-employment benefits | <u>33,908,972</u> | <u>20,883,243</u> |
| Total deferred inflows of resources | <u>74,173,854</u> | <u>66,139,358</u> |
| Commitments and contingencies | | |
| Net position: | | |
| Net investment in capital assets | <u>106,617,092</u> | <u>98,456,902</u> |
| Restricted for: | | |
| Debt service | 36,465,031 | 33,332,007 |
| Capital activities | 2,310,620 | 7,533,747 |
| Port operations | <u>8,343,692</u> | <u>5,708,692</u> |
| Total restricted – expendable | <u>47,119,343</u> | <u>46,574,446</u> |
| Unrestricted | <u>(122,760,770)</u> | <u>(118,650,302)</u> |
| Total net position | <u>30,975,665</u> | <u>26,381,046</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$342,502,259</u> | <u>\$330,681,841</u> |

See accompanying notes.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Statements of Revenues, Expenses and Changes in Net Position

| | Year ended September 30, | |
|---|--------------------------|---------------------|
| | <u>2023</u> | <u>2022</u> |
| Operating revenues: | | |
| Cargo throughput charges | \$36,279,089 | \$35,975,669 |
| Equipment and space rental | 10,533,903 | 9,553,054 |
| Crane surcharge | 5,928,689 | 6,027,078 |
| Wharfage charges | 6,183,998 | 6,018,007 |
| Special services | 97,874 | 91,885 |
| Other operating income | 1,676,928 | 32,323 |
| Bad debts expense | (85,457) | --- |
| Total operating revenues | <u>60,615,024</u> | <u>57,698,016</u> |
| Operating expenses: | | |
| Management and administration | 17,503,435 | 15,086,168 |
| Equipment maintenance | 6,827,448 | 6,395,066 |
| Depreciation | 6,188,620 | 6,143,830 |
| Transportation services | 6,084,351 | 5,482,329 |
| Retiree healthcare and other benefits | 6,045,382 | 7,964,053 |
| Stevedoring services | 4,760,313 | 4,749,173 |
| Terminal services | 3,962,054 | 3,143,209 |
| Insurance | 3,676,977 | 3,665,144 |
| General expenses | 2,696,970 | 4,211,569 |
| Facility maintenance | 2,369,296 | 2,190,952 |
| Utilities | <u>2,115,471</u> | <u>1,665,836</u> |
| Total operating expenses | <u>62,230,317</u> | <u>60,697,329</u> |
| Loss from operations | <u>(1,615,293)</u> | <u>(2,999,313)</u> |
| Nonoperating revenues (expenses): | | |
| U.S. Government grants | 2,758,456 | 16,274,055 |
| Interest income (expense), net | 2,629,387 | (1,453,732) |
| Other income, net | 381,380 | 207,448 |
| Loss on disposal of property, plant and equipment | (26,913) | (11,513) |
| Impairment loss of depreciable capital assets | <u>(1,326,608)</u> | <u>(---)</u> |
| Total nonoperating revenues, net | <u>4,415,702</u> | <u>15,016,258</u> |
| Income before capital contributions | 2,800,409 | 12,016,945 |
| Contributed capital: | | |
| U.S. Government capital grants | <u>1,794,210</u> | <u>560,673</u> |
| Increase in net position | 4,594,619 | 12,577,618 |
| Net position at beginning of year | <u>26,381,046</u> | <u>13,803,428</u> |
| Net position at end of year | <u>\$30,975,665</u> | <u>\$26,381,046</u> |

See accompanying notes.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Statements of Cash Flows

| | Year ended September 30, | |
|---|-----------------------------|----------------------|
| | <u>2023</u> | <u>2022</u> |
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 57,460,237 | \$ 57,755,122 |
| Cash payments to suppliers for goods and services | (17,724,306) | (17,357,050) |
| Cash payments to employees for services and benefits | (33,507,043) | (32,079,867) |
| Net cash provided by operating activities | <u>6,228,888</u> | <u>8,318,205</u> |
| Cash flows from investing activity - interest received | <u>4,752,964</u> | <u>820,105</u> |
| Cash flows from capital and related financing activities: | | |
| Capital grants received | 1,794,211 | 560,673 |
| Repayment of long-term debt | (2,685,000) | (2,560,000) |
| Interest paid | (3,035,044) | (3,162,392) |
| Purchase of property, plant and equipment | (13,653,256) | (4,707,644) |
| Net cash used in capital and related financing activities | (17,579,089) | (9,869,363) |
| Cash flows from non-capital related financing activities: | | |
| Operating grants received | 999,116 | 15,422,235 |
| Other non-capital activities | <u>381,380</u> | <u>207,448</u> |
| Cash provided by non-capital related financing activities | <u>1,380,496</u> | <u>15,629,683</u> |
| Net (decrease) increase in cash and cash equivalents | (5,216,741) | 14,898,630 |
| Cash and cash equivalents at beginning of year | <u>129,718,676</u> | <u>114,820,046</u> |
| Cash and cash equivalents at end of year | <u>\$124,501,935</u> | <u>\$129,718,676</u> |
| Reconciliation to statement of net position: | | |
| Cash and cash equivalents - current | 28,566,850 | \$ 33,180,401 |
| Cash and cash equivalents - restricted current | 52,457,079 | 51,912,182 |
| Cash and cash equivalents - restricted non-current | <u>43,478,006</u> | <u>44,626,093</u> |
| | <u>\$124,501,935</u> | <u>\$129,718,676</u> |

See accompanying notes.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Statements of Cash Flows, continued

| | Year ended September 30, | |
|---|-----------------------------|--------------------|
| | <u>2023</u> | <u>2022</u> |
| Reconciliation of loss from operations to net cash provided by operating activities: | | |
| Loss from operations | \$(1,615,293) | \$(2,999,313) |
| Adjustments to reconcile loss from operations to net cash provided by operating activities: | | |
| Depreciation | 6,188,620 | 6,143,830 |
| Noncash other post-employment benefit costs | 8,431,036 | 5,282,740 |
| Noncash pension expenses | 5,130,166 | 5,599,337 |
| Lease amortization | 385,943 | 388,333 |
| Bad debts expense | 85,457 | --- |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (3,437,596) | (435,151) |
| Prepaid expenses | (12,309) | (41,594) |
| Replacement parts inventories, net | (280,876) | (222,952) |
| Accounts payable, trade and others | 456,250 | 1,613,312 |
| Security deposits and other payables | (125,522) | (426,795) |
| Accrued payroll and withholdings | 34,957 | (291,439) |
| Accrued annual leave | 78,717 | (16,936) |
| Unearned revenue | (194,288) | 103,924 |
| Accrued sick leave | 19,201 | 168,775 |
| Net pension liability | (6,732,170) | (6,475,301) |
| Total collective other post-employment benefits liability | (2,183,405) | (72,565) |
| Net cash provided by operating activities | <u>\$6,228,888</u> | <u>\$8,318,205</u> |

See accompanying notes.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Notes to Financial Statements

Years ended September 30, 2023 and 2022

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.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

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, 2023 and 2022 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 original maturities of three months or less. Restricted cash is considered to be cash and cash equivalents but is separately classified in the statement of net position.

Accounts Receivable and Allowance for Doubtful Accounts

Substantially all of the Authority's accounts receivable as of September 30, 2023 and 2022 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, 2023 and 2022 receivables that are more than thirty days past due totaled \$1,473,329 and \$1,062,977, 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 revenues in the period the Authority deems the accounts to be uncollectible.

Port Authority of Guam
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Notes to Financial Statements, continued

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.

Capital Assets and Depreciation

Land is recorded at its appraised value on the date of transfer from GovGuam. Buildings and structures are stated at cost, which prior to the adoption of GASB Statement No. 89, 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 statement 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.

Port Authority of Guam
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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Compensated Absences , continued

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.

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 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.

Port Authority of Guam
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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

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.

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, 2023 and 2022.

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.

Port Authority of Guam
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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method 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. The adoption of this statement does not have material effect on the financial statements.

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. The adoption of this statement does not have material effect on the financial statements.

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. The adoption of this statement does not have material effect on the financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. The adoption of this statement does not have material effect on the financial statements.

Port Authority of Guam
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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

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

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal years ending September 30, 2025.

Port Authority of Guam
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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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

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.

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, 2023 and 2022, the carrying amount of the Authority's cash and cash equivalents totaled \$124,501,935 and \$129,718,676, and the corresponding bank balance was \$124,374,590 and \$130,147,523, respectively. Of that bank balance, \$4,836,405 and \$9,262,014 were uninsured and uncollateralized, respectively as of September 30, 2023 and 2022.

Port Authority of Guam
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Notes to Financial Statements, continued

2. Cash and Cash Equivalents, continued

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

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Current restricted: | | |
| 2018 Bond Indenture Funds | | |
| Working capital reserve fund | \$ 4,448,505 | \$ 3,101,212 |
| Debt service fund | 1,439,094 | 1,438,421 |
| Revenue fund | 5,500,032 | 4,750,592 |
| Capital improvement fund | 10,648,639 | 10,236,006 |
| Operations and maintenance fund | 375,786 | 158,637 |
| Renewal and replacement reserve fund | 3,500,000 | 3,094,163 |
| Operations and maintenance reserve fund | 10,552,975 | 10,552,975 |
| Bond reserve fund | <u>5,337,736</u> | <u>5,337,736</u> |
| | <u>41,802,767</u> | <u>38,669,742</u> |
| PUC Restricted Funds: | | |
| Crane replacement sinking fund | 8,343,692 | 7,533,747 |
| Facility maintenance fund | <u>2,310,620</u> | <u>5,708,693</u> |
| | <u>10,654,312</u> | <u>13,242,440</u> |
| Total restricted cash and cash equivalents - current | 52,457,079 | 51,912,182 |
| Noncurrent restricted: | | |
| 2018 Bond Indenture Fund - Construction fund | <u>43,478,006</u> | <u>44,626,093</u> |
| | <u>\$95,935,085</u> | <u>\$96,538,275</u> |

Port Authority of Guam
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Notes to Financial Statements, continued

3. Capital Assets

A summary of changes in capital assets for the years ended September 30, 2023 and 2022 is as follows:

| | Beginning Balance October 1, 2022 | Transfers and Additions | Transfers and Deletions | Ending Balance September 30, 2023 |
|-------------------------------|--------------------------------------|----------------------------|----------------------------|---|
| Depreciable: | | | | |
| Buildings | \$146,261,137 | \$ 823,461 | \$(1,728,504) | \$145,356,094 |
| Equipment | <u>36,357,234</u> | <u>1,668,153</u> | <u>(291,694)</u> | <u>37,733,693</u> |
| | 182,618,371 | 2,491,614 | (2,020,198) | 183,089,787 |
| Less accumulated depreciation | <u>(85,738,092)</u> | <u>(6,188,620)</u> | <u>666,677</u> | <u>(91,260,035)</u> |
| | <u>96,880,279</u> | <u>(3,697,006)</u> | <u>(1,353,521)</u> | <u>91,829,752</u> |
| Non-depreciable: | | | | |
| Land | 3,563,000 | --- | --- | 3,563,000 |
| Construction work-in-progress | <u>15,029,806</u> | <u>12,915,342</u> | <u>(1,753,700)</u> | <u>26,191,448</u> |
| | <u>18,592,806</u> | <u>12,915,342</u> | <u>(1,753,700)</u> | <u>29,754,448</u> |
| Lease assets - Equipment | --- | 344,533 | --- | 344,533 |
| Less accumulated amortization | <u>---</u> | <u>(68,906)</u> | <u>---</u> | <u>(68,906)</u> |
| | <u>---</u> | <u>275,627</u> | <u>---</u> | <u>275,627</u> |
| Total | <u>\$115,473,085</u> | <u>\$ 9,493,963</u> | <u>\$(3,107,221)</u> | <u>\$121,859,827</u> |
| | | | | |
| | Beginning Balance October 1, 2021 | Transfers and Additions | Transfers and Deletions | Ending Balance September 30, 2022 |
| Depreciable: | | | | |
| Buildings | \$145,906,642 | \$ 354,495 | \$ --- | \$146,261,137 |
| Equipment | <u>35,391,762</u> | <u>1,116,024</u> | <u>(150,552)</u> | <u>36,357,234</u> |
| | 181,298,404 | 1,470,519 | (150,552) | 182,618,371 |
| Less accumulated depreciation | <u>(79,765,817)</u> | <u>(6,122,827)</u> | <u>150,552</u> | <u>(85,738,092)</u> |
| | <u>101,532,587</u> | <u>(4,652,308)</u> | <u>---</u> | <u>96,880,279</u> |
| Non-depreciable: | | | | |
| Land | 3,563,000 | --- | --- | 3,563,000 |
| Construction work-in-progress | <u>11,825,197</u> | <u>3,204,609</u> | <u>---</u> | <u>15,029,806</u> |
| | <u>15,388,197</u> | <u>3,204,609</u> | <u>---</u> | <u>18,592,806</u> |
| Total | <u>\$116,920,784</u> | <u>\$(1,447,699)</u> | <u>\$ ---</u> | <u>\$115,473,085</u> |

Port Authority of Guam
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Notes to Financial Statements, continued

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.

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.

Port Authority of Guam
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

4. Pensions, continued

A. General Information About the Pension Plans, continued

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 \$2,200 (\$2,000 in 2022). 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.

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 ½ 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: Plan members of the DB Plan are required to contribute a certain percentage of their annual covered salary. The contribution requirements of the plan members and the Authority are established and may be amended by the GGRF.

The Authority’s statutory contribution rates were 28.43% and 28.32% for the years ended September 30, 2023 and 2022, respectively. Employees are required to contribute 9.5% of their annual pay for the years ended September 30, 2023 and 2022.

The Authority’s contributions to the DB Plan for the years ended September 30, 2023 and 2022 were \$3,231,869 and \$3,294,381, respectively, which were equal to the statutorily required contributions for the respective years then ended.

Port Authority of Guam
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Notes to Financial Statements, continued

4. Pensions, continued

A. General Information About the Pension Plans, continued

The Authority's contributions to the supplemental annuity benefit payments and the COLA payments for the years ended September 30, 2023 and 2022 were \$1,074,615 and \$1,025,450, 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 years ended September 30, 2023 and 2022 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, 2023 and 2022 were \$3,283,367 and \$3,004,605, respectively, which was equal to the required contributions for the respective years then ended. Of these amounts, \$2,567,332 and \$2,343,592 were contributed towards the unfunded liability of the DB Plan for the years ended September 30, 2023 and 2022, respectively.

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

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

| | | |
|-------------------|--------------------|--------------------|
| Reporting Date: | September 30, 2023 | September 30, 2022 |
| Measurement Date: | September 30, 2022 | September 30, 2021 |
| Valuation Date: | September 30, 2021 | September 30, 2020 |

Pension Liability: At September 30, 2023 and 2022, the Authority reported a net pension liability for its proportionate share of the net pension liabilities measured as of September 30, 2022 and 2021, respectively, which is comprised of the following:

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|---------------------|
| Defined Benefit Plan | \$60,381,635 | \$39,038,428 |
| Ad Hoc COLA/supplemental annuity Plan for DB retirees | 10,332,672 | 12,455,789 |
| Ad Hoc COLA Plan for DCRS retirees | <u>2,659,233</u> | <u>3,238,841</u> |
| | <u>\$73,373,540</u> | <u>\$54,733,058</u> |

Port Authority of Guam
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Notes to Financial Statements, continued

4. Pensions, continued

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

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, 2023 and 2022, the Authority's proportionate shares of the GovGuam net pension liabilities were as follows:

| | <u>2023</u> | <u>2022</u> |
|---|-------------|-------------|
| Defined Benefit Plan | 4.06% | 4.05% |
| Ad Hoc COLA/supplemental annuity Plan for DB retirees | 4.03% | 4.04% |
| Ad Hoc COLA Plan for DCRS retirees | 4.42% | 4.59% |

Pension Expense: For the years ended September 30, 2023 and 2022, the Authority recognized pension expense for its proportionate share of plan pension expense from the above pension plans as follows:

| | <u>2023</u> | <u>2022</u> |
|---|--------------------|--------------------|
| Defined Benefit Plan | \$8,266,143 | \$4,304,986 |
| Ad Hoc COLA/supplemental annuity Plan for DB retirees | (1,835) | 1,038,633 |
| Ad Hoc COLA Plan for DCRS retirees | <u>166,728</u> | <u>255,718</u> |
| | <u>\$8,431,036</u> | <u>\$5,599,337</u> |

Deferred Outflows and Inflows of Resources: At September 30, 2023 and 2022, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2023 | | | | | |
|---|--------------------------------------|-------------------------------------|--|-------------------------------------|--------------------------------------|-------------------------------------|
| | Defined Benefit Plan | | Ad Hoc COLA/SA Plan for DB Retirees | | Ad Hoc COLA Plan or DCRS Retirees | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ 1,170,626 | \$161,465 | \$ --- | \$ 88,306 | \$ 328,876 | \$ 52,669 |
| Net difference between projected and actual earnings on pension plan investments | 13,607,946 | --- | --- | --- | --- | --- |
| Changes of assumptions | --- | --- | 16,865 | 1,121,173 | 552,932 | 712,316 |
| Contributions subsequent to the measurement date | 5,799,201 | --- | 933,815 | --- | 140,800 | --- |
| Changes in proportion and difference between the Authority contributions and proportionate share of contributions | <u>324,793</u> | <u>---</u> | <u>---</u> | <u>74,525</u> | <u>32,518</u> | <u>676,349</u> |
| | <u>\$20,902,566</u> | <u>\$161,465</u> | <u>\$950,680</u> | <u>\$1,284,004</u> | <u>\$1,055,126</u> | <u>\$1,441,334</u> |

Port Authority of Guam
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Notes to Financial Statements, continued

4. Pensions, continued

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

| | 2022 | | | | | |
|---|--------------------------------------|-------------------------------------|--|-------------------------------------|--------------------------------------|-------------------------------------|
| | Defined Benefit Plan | | Ad Hoc COLA/SA Plan for DB Retirees | | Ad Hoc COLA Plan or DCRS Retirees | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ 62,659 | \$ 396,937 | \$ --- | \$173,039 | \$ 356,184 | \$ 63,072 |
| Net difference between projected and actual earnings on pension plan investments | --- | 4,715,819 | --- | --- | --- | --- |
| Changes of assumptions | --- | --- | 339,402 | 36,935 | 657,858 | 213,634 |
| Contributions subsequent to the measurement date | 5,637,972 | --- | 911,450 | --- | 114,000 | --- |
| Changes in proportion and difference between the Authority contributions and proportionate share of contributions | <u>1,383,469</u> | <u>---</u> | <u>45,415</u> | <u>197,010</u> | <u>38,078</u> | <u>670,088</u> |
| | <u>\$7,084,100</u> | <u>\$5,112,756</u> | <u>\$1,296,267</u> | <u>\$406,984</u> | <u>\$1,166,120</u> | <u>\$946,794</u> |

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, 2023 will be recognized in pension expense as follows:

| Year Ending September 30 | Defined Benefit Plan | Ad Hoc COLA/ Supplemental Annuity Plan for DB Retirees | Ad Hoc COLA Plan for DCRS Retirees |
|-----------------------------|-------------------------|--|---------------------------------------|
| 2024 | \$ 4,188,847 | \$(642,585) | \$(185,633) |
| 2025 | 3,674,217 | (599,712) | (185,633) |
| 2026 | 2,636,429 | (24,842) | (185,631) |
| 2027 | 4,442,407 | --- | 28,977 |
| 2028 | --- | --- | 32,478 |
| Thereafter | <u>---</u> | <u>---</u> | <u>(31,566)</u> |
| | <u>\$14,941,900</u> | <u>\$(1,267,139)</u> | <u>\$(527,008)</u> |

Port Authority of Guam
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Notes to Financial Statements, continued

4. Pensions, continued

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

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

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

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

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Nominal Return</u> | <u>Component Return</u> |
|--------------------------------------|--------------------------------|-----------------------|-------------------------|
| U.S. Equities (large cap) | 26.0% | 8.14% | 2.12% |
| U.S. Equities (small cap) | 4.0% | 9.75% | 0.39% |
| Non-U.S. Equities | 17.0% | 10.15% | 1.73% |
| Non-U.S. Equities (emerging markets) | 3.0% | 12.08% | 0.36% |
| U.S. Fixed Income (aggregate) | 22.0% | 4.77% | 1.05% |
| Risk Parity | 8.0% | 6.65% | 0.53% |
| High Yield Bonds | 8.0% | 6.90% | 0.55% |
| Global Real Estate (REITs) | 2.5% | 9.62% | 0.24% |
| Global Equity | 7.0% | 8.93% | 0.67% |
| Global Infrastructure | 2.5% | 8.08% | 0.16% |
| Expected average return for one year | | | 7.80% |
| Expected geometric mean (30 years) | | | 7.09% |

Discount Rate: The discount rate used to measure the total pension liability for the DB Plan 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 at September 30, 2023 was 4.02% (2.26% at September 30, 2022), which is equal to the rate of return of a high-quality bond index.

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Notes to Financial Statements, continued

4. Pensions, continued

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

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>\$71,003,143</u> | <u>\$60,381,635</u> | <u>\$47,216,688</u> |

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

| | 1% Decrease in Discount Rate <u>3.02%</u> | Current Discount Rate <u>4.02%</u> | 1% Increase in Discount Rate <u>5.02%</u> |
|-----------------------|---|--|---|
| Net Pension Liability | <u>\$11,229,332</u> | <u>\$10,332,672</u> | <u>\$9,540,621</u> |

Ad Hoc COLA Plan for DCRS Retirees:

| | 1% Decrease in Discount Rate <u>3.02%</u> | Current Discount Rate <u>4.02%</u> | 1% Increase in Discount Rate <u>5.02%</u> |
|-----------------------|---|--|---|
| Net Pension Liability | <u>\$3,026,943</u> | <u>\$2,659,233</u> | <u>\$2,382,259</u> |

C. Payables to the Pension Plans

As of September 30, 2023 and 2022, the Authority recorded payables to GGRF of \$8,672 and \$28,716, 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.

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Notes to Financial Statements, continued

5. Other Post-Employment Benefits (OPEB), continued

A. General Information About the OPEB Plan

Plan Description: The OPEB 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. GovGuam issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to the Government of Guam Department of Administration, Suite 224, 2nd Floor, ITC Building, 590 South Marine Corps Drive, or by visiting the Guam Department of Administration website – <https://da.doa.guam.gov/reports/guam-other-post-employment-benefits-opeb-reports/>.

Benefits: GovGuam provides postemployment 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.

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 become due.

For the years ended September 30, 2023 and 2022, the Authority reimbursed GovGuam \$1,898,586 and \$1,625,903, respectively, for its share of the costs of the above-mentioned Plan, which were equal to the statutorily required contributions.

B. Total OPEB Liability

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

| | |
|-------------------|-----------------------------|
| Reporting date: | September 30, 2023 and 2022 |
| Measurement date: | September 30, 2022 and 2021 |
| Valuation date: | September 30, 2022 and 2020 |

Total OPEB liability as of September 30, 2023 and 2022 is \$90,395,007 and \$107,471,269, respectively.

Proportionate share of total OPEB liability at September 30, 2023 and 2022 is 3.94% and 3.88%, respectively.

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Notes to Financial Statements, continued

5. Other Post-Employment Benefits (OPEB), continued

B. Total OPEB Liability, continued

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

| | |
|-----------------------------------|---|
| Inflation: | 2.50% |
| Healthcare cost trend rate: | 8% for FY2023, decreasing 0.5% per year to 4.5% in FY2030 and an ultimate rate of 4.1% for FY2031 and later years. |
| Dental trend rates: | 4.25% per year, based on a blend of historical retiree premium rate increases as well as observed U.S. national trends. |
| Healthy retiree mortality rates: | Head-count weighted PUB-2010 Table, set forward 4 years and 2 years for males and females, respectively, projected generationally using 50% of MP-2020. |
| Disabled retiree mortality rates: | PUB-2010 Disabled Retiree Amount Weighted mortality table set forward 4 years and 2 years for males and females, respectively, using 130% of the rates before age 80 and projected generationally from 2010 using 50% of mortality improvement scale MP-2020. |

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.

Discount Rate: The discount rate used to measure the total OPEB liability was 4.02% as of September 30, 2022. 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 4.02% municipal bond rate as of September 30, 2022 was applied to all periods of projected benefit payments to determine the total OPEB liability.

C. Changes in the Total OPEB Liability

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 in measuring the OPEB liability.

| | 1% Decrease in Discount Rate <u>3.02%</u> | Current Discount Rate <u>4.02%</u> | 1% Increase in Discount Rate <u>5.02%</u> |
|----------------|---|--|---|
| OPEB Liability | <u>\$104,996,271</u> | <u>\$90,395,007</u> | <u>\$78,558,474</u> |

Port Authority of Guam
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Notes to Financial Statements, continued

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 OPEB liability.

| | <u>1% Decrease</u> | Healthcare Cost <u>Trend Rates</u> | <u>1% Increase</u> |
|----------------|---------------------|---------------------------------------|----------------------|
| OPEB Liability | <u>\$77,485,945</u> | <u>\$90,395,007</u> | <u>\$106,860,577</u> |

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

For the years ended September 30, 2023 and 2022, the Authority recognized OPEB expense of \$5,130,166 and \$5,282,740. At September 30, 2023 and 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>2023</u> | | <u>2022</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 | \$ 8,149,942 | \$29,750,951 | \$12,547,874 | \$15,110,929 |
| Difference between expected and actual experience | 7,049,508 | 4,156,797 | 9,365,087 | 5,708,678 |
| Contributions subsequent to the measurement date | 1,898,586 | --- | 1,625,903 | --- |
| Changes in proportion and difference between the Authority contributions and proportionate share of contributions | <u>4,710,652</u> | <u>1,224</u> | <u>5,267,119</u> | <u>63,636</u> |
| | <u>\$21,808,688</u> | <u>\$33,908,972</u> | <u>\$28,805,983</u> | <u>\$20,883,243</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 will be recognized in OPEB expense as follows:

| | |
|------------|-----------------------|
| 2024 | \$(1,136,630) |
| 2025 | (297,881) |
| 2026 | (2,566,058) |
| 2027 | (2,842,677) |
| 2028 | (3,560,013) |
| Thereafter | <u>(3,595,611)</u> |
| | <u>\$(13,998,870)</u> |

Port Authority of Guam
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Notes to Financial Statements, continued

6. Long-Term Liabilities

A. Long-Term Debt

Long-term bank debt consists of the following:

| | <u>2023</u> | <u>2022</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 | 16,965,000 | 19,505,000 |
| 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>13,090,000</u> | <u>13,235,000</u> |
| Total long-term debt | 60,035,000 | 62,720,000 |
| Less current portion | <u>(2,820,000)</u> | <u>(2,685,000)</u> |
| | 57,215,000 | 60,035,000 |
| Add premium on bonds | <u>4,023,477</u> | <u>4,260,012</u> |
| | <u>\$61,238,477</u> | <u>\$64,295,012</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 years ended September 30, 2023, the debt service for the series bonds was \$5,755,842 or approximately 11% of pledged gross revenues.

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Notes to Financial Statements, continued

6. Long-Term Liabilities, continued

A. Long-Term Debt, continued

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

As of September 30, 2023, 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> |
|----------------------------------|---------------------|---------------------|---------------------------|
| 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 | 3,225,000 | 2,531,183 | 5,756,183 |
| 2028 | 3,370,000 | 2,383,413 | 5,753,413 |
| 2029 through 2033 | 7,450,000 | 10,436,250 | 17,886,250 |
| 2034 through 2038 | 9,510,000 | 8,378,000 | 17,888,000 |
| 2039 through 2043 | 12,130,000 | 5,751,250 | 17,881,250 |
| 2044 through 2048 | <u>15,490,000</u> | <u>2,398,500</u> | <u>17,888,500</u> |
| | <u>\$60,035,000</u> | <u>\$40,286,174</u> | <u>\$100,321,174</u> |

Changes in long-term bank debt for the year ended September 30, 2023 and 2022 are as follows:

| | Outstanding at September 30, 2022 | Increases | Decreases | Outstanding at September 30, 2023 | Current | Noncurrent |
|---|---|---------------|--------------------|---|--------------------|---------------------|
| 2018 Series A bonds | \$29,980,000 | \$ --- | \$ --- | \$29,980,000 | \$ --- | \$29,980,000 |
| 2018 Series B bonds | 19,505,000 | --- | 2,540,000 | 16,965,000 | 2,365,000 | 14,600,000 |
| 2018 Series C bonds | 13,235,000 | --- | 145,000 | 13,090,000 | 455,000 | 12,635,000 |
| Unamortized premium on 2018 Series bonds | <u>4,260,012</u> | <u>---</u> | <u>236,535</u> | <u>4,023,477</u> | <u>---</u> | <u>4,023,477</u> |
| | <u>\$66,980,012</u> | <u>\$ ---</u> | <u>\$2,921,535</u> | <u>\$64,058,477</u> | <u>\$2,820,000</u> | <u>\$61,238,477</u> |
| | Outstanding at September 30, 2021 | Increases | Decreases | Outstanding at September 30, 2022 | Current | Noncurrent |
| 2018 Series A bonds | \$29,980,000 | \$ --- | \$ --- | \$29,980,000 | \$ --- | \$29,980,000 |
| 2018 Series B bonds | 21,825,000 | --- | 2,320,000 | 19,505,000 | 2,540,000 | 16,965,000 |
| 2018 Series C bonds | 13,475,000 | --- | 240,000 | 13,235,000 | 145,000 | 13,090,000 |
| Unamortized premium on 2018 Series bonds | <u>4,512,826</u> | <u>---</u> | <u>252,814</u> | <u>4,260,012</u> | <u>---</u> | <u>4,260,012</u> |
| | <u>\$69,792,826</u> | <u>\$ ---</u> | <u>\$2,812,814</u> | <u>\$66,980,012</u> | <u>\$2,685,000</u> | <u>\$64,295,012</u> |

Port Authority of Guam
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Notes to Financial Statements, continued

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, 2023 and 2022. 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, 2023 and 2022, 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.

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.

Port Authority of Guam
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Notes to Financial Statements, continued

6. Long-Term Liabilities, continued

A. Long-Term Debt, continued

Bond Covenants, continued

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 2023 and 2022 were as follows:

| | Outstanding at September 30, 2022 | Increases | Decreases | Outstanding at September 30, 2023 | Current | Noncurrent |
|-----------------------|---|---------------------|-----------------------|---|--------------------|----------------------|
| Accrued annual leave | \$ 2,336,711 | \$ 1,725,965 | \$(1,647,248) | \$ 2,415,428 | \$1,639,899 | \$ 775,529 |
| Accrued sick leave | 1,752,616 | 1,106,823 | (1,087,622) | 1,771,817 | --- | 1,771,817 |
| Lease liabilities | --- | 344,533 | (65,230) | 279,303 | --- | --- |
| Net pension liability | 54,733,058 | 18,640,482 | --- | 73,373,540 | --- | 73,373,540 |
| OPEB liability | <u>107,471,269</u> | <u>---</u> | <u>(17,076,262)</u> | <u>90,395,007</u> | <u>---</u> | <u>90,395,007</u> |
| | <u>\$166,293,654</u> | <u>\$21,817,803</u> | <u>\$(19,876,362)</u> | <u>\$185,311,357</u> | <u>\$1,639,899</u> | <u>\$166,315,893</u> |
| | Outstanding at September 30, 2021 | Increases | Decreases | Outstanding at September 30, 2022 | Current | Noncurrent |
| Accrued annual leave | \$ 2,353,647 | \$ 1,777,456 | \$(1,794,392) | \$ 2,336,711 | \$1,430,311 | \$ 906,400 |
| Accrued sick leave | 1,583,841 | 1,396,889 | (1,228,114) | 1,752,616 | --- | 1,752,616 |
| Net pension liability | 66,111,010 | --- | (11,377,952) | 54,733,058 | --- | 54,733,058 |
| OPEB liability | <u>97,077,114</u> | <u>10,394,155</u> | <u>---</u> | <u>107,471,269</u> | <u>---</u> | <u>107,461,269</u> |
| | <u>\$167,125,612</u> | <u>\$13,568,500</u> | <u>\$(14,400,458)</u> | <u>\$166,293,654</u> | <u>\$1,430,311</u> | <u>\$164,863,343</u> |

7. Major Customers

For the years ended September 30, 2023 and 2022, the Authority has three major shipping agency customers that collectively accounted for 71% and 72% 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.

8. Leases

Lease-related amounts are recognized at the inception of leases in which the Authority is the lessor. The deferred inflow of resources is recorded in an amount equal to the corresponding lease receivable plus certain additional amounts received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The inflow of resources is recognized in a systematic and rational manner over the term of the lease.

Port Authority of Guam
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Notes to Financial Statements, continued

8. Leases, continued

The Authority, as a lessor, has entered into lease agreements involving land and building space. 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 \$10,533,903 and \$9,553,054 for the years ended September 30, 2023 and 2022, respectively. Of those amounts, the Authority earned variable lease revenue of \$9,122,401 and \$8,148,699 for the years ended September 30, 2023 and 2022, respectively, not previously included in measurement of the lease receivable.

A summary of changes in lease receivable for the year ended September 30, 2023 and 2022 is as follows:

| <u>Beginning Balance</u> <u>September 30, 2022</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> <u>September 30, 2023</u> | <u>Current</u> | <u>Noncurrent</u> |
|---|-------------------|------------------------|--|---------------------|----------------------|
| \$ <u>39,036,989</u> | \$ <u>684,305</u> | \$(<u>1,803,142</u>) | \$ <u>37,918,152</u> | \$ <u>1,136,808</u> | \$ <u>36,781,344</u> |
| <u>Beginning Balance</u> <u>September 30, 2021</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> <u>September 30, 2022</u> | <u>Current</u> | <u>Noncurrent</u> |
| \$ <u>40,157,937</u> | \$ <u>635,741</u> | \$(<u>1,756,689</u>) | \$ <u>39,036,989</u> | \$ <u>1,118,837</u> | \$ <u>37,918,152</u> |

Lease receivables are due in the upcoming years as follows:

| Years ending September 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|---------------------|---------------------|---------------------|
| 2024 | \$ 1,136,808 | \$ 666,333 | \$ 1,803,141 |
| 2025 | 1,155,099 | 648,042 | 1,803,141 |
| 2026 | 1,173,716 | 629,426 | 1,803,142 |
| 2027 | 1,023,054 | 610,897 | 1,633,951 |
| 2028 | 960,730 | 593,774 | 1,554,504 |
| 2029 - 2033 | 4,780,083 | 2,718,072 | 7,498,155 |
| 2034 - 2038 | 5,062,404 | 2,288,017 | 7,350,421 |
| 2039 - 2043 | 4,666,451 | 1,845,054 | 6,511,505 |
| 2044 - 2048 | 4,834,008 | 1,422,176 | 6,256,184 |
| 2049 - 2053 | 5,294,438 | 961,745 | 6,256,183 |
| 2054 - 2058 | 5,798,724 | 457,459 | 6,256,183 |
| 2059 - 2062 | <u>2,032,637</u> | <u>35,594</u> | <u>2,068,231</u> |
| | <u>\$37,918,152</u> | <u>\$12,876,589</u> | <u>\$50,794,741</u> |

Port Authority of Guam
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Notes to Financial Statements, continued

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.

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.

Port Authority of Guam
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Notes to Financial Statements, continued

9. Commitments and Contingencies, continued

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, 2023 and 2022.

Lawsuit and Claims

The Authority is a defendant in various lawsuits and proceedings arising in the normal course of business. 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 no provision has been recorded for litigation and claims in the financial statements.

Contract Commitments

As of September 30, 2023, the Authority has various on-going construction contracts with a total contract price of \$76.0 million, of which \$17.3 million has been recorded as construction work-in-progress.

As of September 30, 2022, the Authority has various on-going construction contracts with a total contract price of \$62.8 million, of which \$7.0 million has been recorded as construction work-in-progress.

Purchase Commitments

As of September 30, 2023 and 2022, the Authority has outstanding purchase orders for various equipment purchases totaling \$1,958,182 and \$37,100, respectively.

Required Supplementary Information

Port Authority of Guam
(A Component Unit of the Government of Guam)

Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

Defined Benefit Plan
(Unaudited)

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Port Authority of Guam's (PAG's) proportionate share of the net pension liability | \$60,381,635 | \$39,038,428 | \$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 | 4.06% | 4.05% | 4.01% | 3.86% | 3.48% | 3.48% | 3.20% | 3.09% |
| PAG's covered payroll** | \$22,559,349 | \$21,572,942 | \$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 | 267.66% | 180.96% | 238.47% | 238.36% | 229.47% | 224.72% | 270.31% | 280.98% |
| Plan fiduciary net position as a percentage of the total pension liability | 54.45% | 70.14% | 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 payroll data from the actuarial valuation date with one-year lag.

Port Authority of Guam
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Required Supplementary Information
Schedule of Proportionate Share of the Collective Total Pension Liability
Last 10 Fiscal Years*

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

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Port Authority of Guam's (PAG's) proportionate share of the net pension liability | \$10,332,672 | \$12,455,789 | \$13,145,995 | \$13,573,770 | \$11,646,387 | \$11,683,996 |
| PAG's proportion of the collective total pension liability | 4.03% | 4.04% | 4.08% | 4.19% | 4.02% | 4.05% |

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

Port Authority of Guam
(A Component Unit of the Government of Guam)

Required Supplementary Information
Schedule of Proportionate Share of the Total Collective Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA Plan for DCRS Retirees
(Unaudited)

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Port Authority of Guam's (PAG's) proportionate share of the total collective pension liability | \$2,659,233 | \$3,238,841 | \$3,038,870 | \$3,117,626 | \$2,527,680 | \$3,186,769 |
| PAG's proportion of the net pension liability | 4.42% | 4.59% | 4.58% | 5.21% | 5.12% | 5.10% |

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

Port Authority of Guam
(A Component Unit of the Government of Guam)

Required Supplementary Information
Schedule of Pension Contributions
Last 10 Fiscal Years*
(Unaudited)

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Statutorily required contribution | \$ 5,799,201 | \$ 5,637,972 | \$ 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>5,483,004</u> | <u>5,099,085</u> | <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>\$ 316,197</u> | <u>\$ 538,888</u> | <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 payroll | <u>\$22,559,349</u> | <u>\$21,572,942</u> | <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 | 24.30% | 23.64% | 22.77% | 23.86% | 26.44% | 24.65% | 24.57% | 26.30% |

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

Port Authority of Guam
(A Component Unit of the Government of Guam)

Required Supplementary Information
Schedule of Proportionate Share of the Collective Total OPEB Liability
Last 10 Fiscal Years*
(Unaudited)

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|--------------|---------------|--------------|--------------|--------------|--------------|
| Port Authority of Guam's (PAG's) proportionate share of the collective total OPEB liability | \$90,395,007 | \$107,471,269 | \$97,077,114 | \$92,013,986 | \$67,314,364 | \$84,786,658 |
| PAG's proportion of the collective total OPEB liability | 3.94% | 3.88% | 3.85% | 3.60% | 3.59% | 3.49% |

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

Port Authority of Guam
(A Component Unit of the Government of Guam)

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

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Actuarially determined contribution | \$8,965,295 | \$8,404,695 | \$8,557,624 | \$6,574,050 | \$7,774,898 | \$8,055,416 | \$6,995,373 |
| Contributions in relation to the actuarially determined contribution | <u>1,967,294</u> | <u>1,613,731</u> | <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>\$6,998,001</u> | <u>\$6,790,964</u> | <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> |

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

Port Authority of Guam
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Notes to Required Supplementary Information
(Unaudited)

Changes in Assumptions – Pension Plans

Amounts reported in 2022 actuarial valuation reflected an assumption related to administrative expenses to increase to \$6,565,000 per year.

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

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

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

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

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

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

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

Supplementary and Other Information

Port Authority of Guam
(A Component Unit of the Government of Guam)

Schedule of Details of Operating Expenses

Years ended September 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--------------------------------------|---------------------|---------------------|
| Management and administration | | |
| Management: | | |
| Salaries and wages - regular | \$ 726,390 | \$ 636,849 |
| Pension cost | 282,196 | 164,793 |
| Annual leave | 59,823 | 54,724 |
| Fringe benefits | 41,683 | 26,217 |
| Benefits - Government contribution | 11,745 | 9,059 |
| Salaries and wages - overtime | 4,347 | --- |
| Office supplies | 2,925 | 2,364 |
| Miscellaneous | <u>46,960</u> | <u>12,126</u> |
| Total management | <u>1,176,069</u> | <u>906,132</u> |
| Administration: | | |
| Salaries and wages - regular | 9,095,708 | 8,582,521 |
| Pension cost | 3,483,004 | 2,255,231 |
| Fringe benefits | 829,783 | 755,956 |
| Repairs and maintenance | 771,970 | 698,655 |
| Annual leave | 758,975 | 712,748 |
| Salaries and wages - overtime | 273,541 | 222,728 |
| Furnishings and equipment | 187,083 | 113,370 |
| Benefits - Government contribution | 130,696 | 52,793 |
| Salaries and wages - other | 96,049 | 89,668 |
| Operational supplies | 89,730 | 72,161 |
| Office supplies | 28,815 | 35,458 |
| Miscellaneous | <u>582,012</u> | <u>588,747</u> |
| Total administration | <u>16,327,366</u> | <u>14,180,036</u> |
| Total management and administration | <u>\$17,503,435</u> | <u>\$15,086,168</u> |

Port Authority of Guam
(A Component Unit of the Government of Guam)

Schedule of Details of Operating Expenses, continued

Years ended September 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|------------------------------------|--------------------|--------------------|
| Equipment maintenance | | |
| Salaries and wages - regular | \$2,930,816 | \$3,001,593 |
| Pension cost | 1,118,648 | 787,629 |
| Operational supplies | 950,856 | 644,382 |
| Repairs and maintenance | 541,499 | 717,190 |
| Salaries and wages - overtime | 355,132 | 324,870 |
| Fringe benefits | 348,572 | 332,292 |
| Annual leave | 238,812 | 240,940 |
| Salaries and wages - other | 173,864 | 189,165 |
| Benefits - Government contribution | 34,688 | 48,592 |
| Furnishings and equipment | 33,081 | 22,660 |
| Office supplies | 3,941 | 1,955 |
| Miscellaneous | <u>97,539</u> | <u>83,798</u> |
| Total equipment maintenance | <u>\$6,827,448</u> | <u>\$6,395,066</u> |
| Transportation services | | |
| Salaries and wages - regular | \$2,977,531 | \$2,845,291 |
| Pension cost | 1,160,665 | 770,528 |
| Salaries and wages – overtime | 619,089 | 599,031 |
| Gas, oil and diesel | 426,461 | 415,279 |
| Fringe benefits | 359,687 | 337,422 |
| Salaries and wages – other | 238,659 | 229,042 |
| Annual leave | 234,520 | 229,079 |
| Benefits – Government contribution | 54,112 | 51,799 |
| Furnishings and equipment | 2,641 | 1,884 |
| Office supplies | 1,652 | 2,000 |
| Operational supplies | 857 | 957 |
| Miscellaneous | <u>8,477</u> | <u>17</u> |
| Total transportation services | <u>\$6,084,351</u> | <u>\$5,482,329</u> |

Port Authority of Guam
(A Component Unit of the Government of Guam)

Schedule of Details of Operating Expenses, continued

Years ended September 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|------------------------------------|--------------------|--------------------|
| Stevedoring services | | |
| Salaries and wages - regular | \$2,554,652 | \$2,709,864 |
| Pension cost | 927,108 | 700,038 |
| Salaries and wages – overtime | 595,450 | 650,123 |
| Fringe benefits | 263,170 | 242,126 |
| Annual leave | 184,637 | 187,394 |
| Salaries and wages – other | 170,503 | 187,642 |
| Benefits – Government contribution | 63,530 | 70,074 |
| Operational supplies | 800 | 1,373 |
| Furnishings and equipment | 408 | 539 |
| Office supplies | <u>55</u> | <u>---</u> |
| Total stevedoring services | <u>\$4,760,313</u> | <u>\$4,749,173</u> |
| Facility maintenance | | |
| Salaries and wages - regular | \$1,204,971 | \$1,227,481 |
| Pension cost | 469,188 | 303,856 |
| Operational supplies | 191,921 | 182,714 |
| Fringe benefits | 182,523 | 160,715 |
| Salaries and wages - overtime | 146,149 | 148,836 |
| Annual leave | 89,885 | 88,528 |
| Benefits - Government contribution | 19,432 | 18,892 |
| Salaries and wages – other | 13,778 | 16,477 |
| Repairs and maintenance | 12,935 | 6,813 |
| Furnishings and equipment | 6,610 | 9,468 |
| Office supplies | --- | 380 |
| Miscellaneous | <u>31,904</u> | <u>26,792</u> |
| Total facility maintenance | <u>\$2,369,296</u> | <u>\$2,190,952</u> |

Port Authority of Guam
(A Component Unit of the Government of Guam)

Schedule of Details of Operating Expenses, continued

Years ended September 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---|--------------------|--------------------|
| Terminal services: | | |
| Salaries and wages - regular | \$2,218,144 | 1,865,056 |
| Pension cost | 789,776 | 453,170 |
| Salaries and wages – overtime | 374,847 | 321,736 |
| Fringe benefits | 186,907 | 165,669 |
| Annual leave | 159,312 | 145,204 |
| Salaries and wages – other | 129,337 | 100,499 |
| Benefits – Government contribution | 91,563 | 81,562 |
| Office supplies | 5,306 | 3,830 |
| Operational supplies | 4,961 | 5,800 |
| Furnishings and equipment | 629 | 683 |
| Miscellaneous | <u>1,272</u> | <u>---</u> |
| Total terminal services | <u>\$3,962,054</u> | <u>\$3,143,209</u> |
| General expenses: | | |
| Managers' fee | \$1,053,664 | \$ 948,234 |
| Maintenance | 418,432 | 804,210 |
| Professional services | 389,040 | 222,670 |
| Waste removal | 257,235 | 7,420 |
| Port incentive award | 137,635 | 108,903 |
| Tech Service | 131,728 | 320,245 |
| U.S. Department of Defense – Office of Economic Adjustment | 74,467 | 577,545 |
| Audit | 66,500 | 35,000 |
| Inventory adjustment | 17,402 | 5,573 |
| Board of Directors expense | 8,800 | 9,800 |
| Claims and damages | 7,605 | 166,872 |
| Agency fee | 7,103 | 7,602 |
| Workmen's compensation injury allowance | 5,018 | 11,085 |
| Contingencies | 875 | 159,296 |
| Demolition | --- | 693,209 |
| Legal counsel | --- | 4,980 |
| Miscellaneous | <u>121,466</u> | <u>128,925</u> |
| Total general expenses | <u>\$2,696,970</u> | <u>\$4,211,569</u> |

Port Authority of Guam
(A Component Unit of the Government of Guam)

Schedule of Summary of Salaries and Wages

Years ended September 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|------------------------------------|---------------------|---------------------|
| Salaries and wages - regular | \$21,708,212 | \$20,868,655 |
| Salaries and wages – overtime | 2,368,555 | 2,267,324 |
| Fringe benefits | 2,212,325 | 2,020,397 |
| Salaries and wages - other | 822,190 | 812,493 |
| Benefits – Government contribution | <u>405,766</u> | <u>332,771</u> |
| | <u>\$27,517,048</u> | <u>\$26,301,640</u> |

Port Authority of Guam
(A Component of the Government of Guam)

Employees by Department

Years ended September 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|-------------------------------|-------------|-------------|
| Department: | | |
| Management and administration | 142 | 142 |
| Stevedoring services | 52 | 53 |
| Equipment maintenance | 56 | 51 |
| Transportation services | 55 | 51 |
| Terminal services | 38 | 37 |
| Facility maintenance | <u>27</u> | <u>28</u> |
| | <u>370</u> | <u>362</u> |