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

FINANCIAL STATEMENTS, ADDITIONAL
INFORMATION AND
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2018 AND 2017

(AS RESTATED)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Port Authority of Guam:

Report on Financial Statements

We have audited the accompanying financial statements of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Deloitte.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in note 9 to the financial statements, the Authority is a defendant in a claim filed by a former tenant (Guam YTK Corporation or YTK) of the Authority. The dispute was submitted to arbitration and in April 2016, the Arbitrators issued a decision in favor of YTK and awarded YTK approximately $14 million plus interest. In December 2016, the Superior Court of Guam denied the Authority's motion to vacate the Arbitration Award and granted YTK's Motion to Confirm the Award. In January 2018, the Authority filed a Motion to Dismiss in the Supreme Court of Guam. The matter is pending decision/opinion of the Supreme Court of Guam. No provision has been recorded in the accompanying financial statements pending final resolution of this matter.

As discussed in Note 1 to the financial statements, in 2018, the Authority adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The Authority has elected to restate its 2017 financial statements to reflect the adoption of this standard.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 as well as the Schedules of Proportional Share of the Net Pension Liability on pages 48 through 50, the Schedule of Pension Contributions on page 51, the Schedule of Changes in the Proportional Share of the Total OPEB Liability and Related Ratios on page 52, the Schedule of Proportional Share of the Total OPEB Liability on page 53, and the Schedule of OPEB Contributions on page 54 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Matters, Continued

Other Financial Information

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

The schedules of operating expenses and summary of salaries and wages on pages 55 through 59 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses and summary of salaries and wages are fairly stated, in all material respects, in relation to the financial statements as a whole.

The schedule of employees by department on page 60 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deloitte & Touche LLP

May 3, 2019

The following Management's Discussion and Analysis (MD&A) of the Port Authority of Guam (PAG, Port, Authority) provides an overview of the activities and financial performance for the fiscal years ended September 30, 2018 and 2017. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the accompanying notes which follow this section and are integral to the data contained in the financial statements.

ABOUT THE AUTHORITY

The Port Authority of Guam was established as a public corporation and an autonomous agency of the Government of Guam by Public Law 13-87 in October 1975. The Port operates the only commercial seaport in the Territory and is the primary seaport in Micronesia. It operates the largest U.S. deep water port in the region and currently handles about 1-2 million tons of cargo a year. The Port owns 5 cargo-handling piers along with two fuel piers and three marinas. The cost of operations and capital improvements are funded largely from the Authority's own revenues.

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

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

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

FINANCIAL HIGHLIGHTS

- The net position of the Authority as of September 30, 2018 was $12 million. Of this amount, $89.9 million is net investment in capital assets, $30.5 million is considered restricted and $(108.5) million is considered unrestricted.
- The Port's net position decreased by $103 thousand for the fiscal year ended September 30, 2018.
- The Port's total assets increased by $58.7 million during the fiscal year ended September 30, 2018. The major component of this change was an increase in restricted cash and cash equivalents related to the Port's 2018 Bond Proceeds.
- The total liabilities increased by $49.7 million during fiscal year ended September 30, 2018. The major component of this change was an increase in long term liabilities due to the bond proceeds.

Overview of Financial Statements

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

The statements of net position present information on all of the Authority's assets, deferred outflows and deferred inflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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

Financial Analysis

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

The table below highlights the financial comparison from fiscal year 2016 through 2018. In 2018, the Authority adopted GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions. The implementation of this statement had material effect on the financial statements resulting in the restatement of the Authority's fiscal year 2017 financial statements to reflect the reporting of post-employment benefits other than pension liabilities, deferred inflows of resources and deferred outflows of resources for health insurance in accordance with the provisions of GASB Statement No. 75. See note 1 to the financial statements.

In 2017, the Authority adopted GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The implementation of this statement had a material effect on the financial statements resulting in the restatement of the Authority's fiscal year 2016 financial statements to reflect the reporting of pension liabilities, deferred inflows of resources and deferred outflows of resources for ad hoc COLAs and supplemental annuity payments and the recognition of pension expense in accordance with the provisions of GASB Statement No. 73. The 2016 financial statements were also restated due to changes in actuarial assumptions and other inputs used to determine the pension liabilities, deferred inflows of resources and deferred outflows of resources for the qualified pension plan.

In June of 2018, the Authority, in cooperation with Guam Economic Development Authority (GEDA) was successful in the sale of $71.445 million of 2018 Port Revenue Bonds. The Port's combined investment ratings by S&P and Moody's was the highest rating for any Government of Guam ratings and contributed to securing favorable interest rates. The official closing of the bonds and the transfer of proceeds to the Port occurred in July 2018. The effect of this bond transaction was an increase in the Authority's total assets and total liabilities.

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

Condensed Statements of Net Position

(In thousands)

	2018	2017 (Restated)	2016 (Restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current and other assets	$ 113,150	$ 47,525	$ 41,191
Capital assets	118,604	123,830	122,948
Total assets	231,754	171,355	164,139
Deferred outflows of resources	14,278	16,010	9,024
Total assets and deferred outflows of resources	$ 246,032	$ 187,365	$ 173,163
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Current liabilities	$ 7,699	$ 7,523	$ 6,352
Other non-current liabilities	216,363	166,800	152,846
Total liabilities	224,062	174,323	159,198
Deferred inflows of resources	10,053	1,023	422
Net position:			
Net investment in capital assets	89,899	102,242	101,528
Restricted - expendable	30,475	6,160	5,113
Unrestricted	(108,457)	(96,383)	(93,098)
Total net position	11,917	12,019	13,543
Total liabilities, deferred inflows of resources and net position	$ 246,032	$ 187,365	$ 173,163

The Authority's total assets and deferred outflows of resources increased by $58.7 million during the fiscal year ended September 30, 2018, from $187 million in FY 2017 to $246 million in FY 2018.

The Port's current and other assets increased by $65 million or 138%, capital assets decreased by $5 million or 4%. Total liabilities increased by $49.7 million or 29% from $174.3 million in FY 2017 to $224.0 million in FY 2018. The issuance of revenue bonds in 2018 in the amount of $71.4 million is the primary reason for the increase in total assets and total liabilities. The net position decreased by $103 thousand during the fiscal year ended September 30, 2018. Net position invested in capital assets net of related debt decreased by $12 million, restricted net position increased by $24 million and unrestricted net position decreased by $12 million.

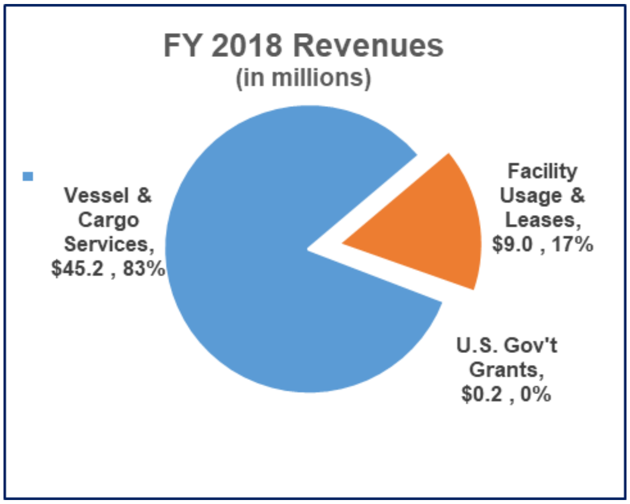
Key elements of this decrease are identified in the following schedule of changes in net position and related explanations.

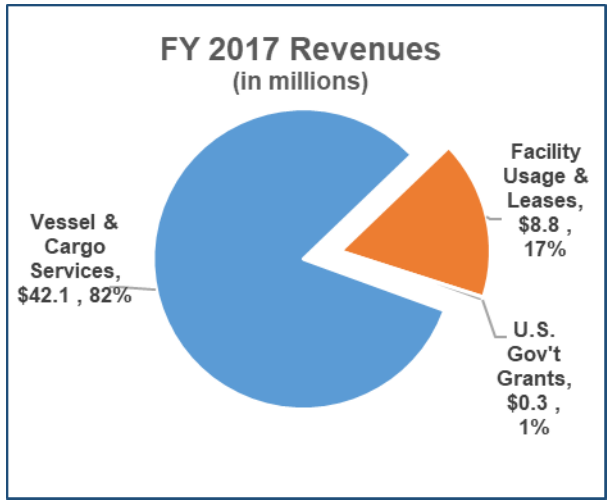
Port Authority of Guam
Changes in Net Position
(In thousands)

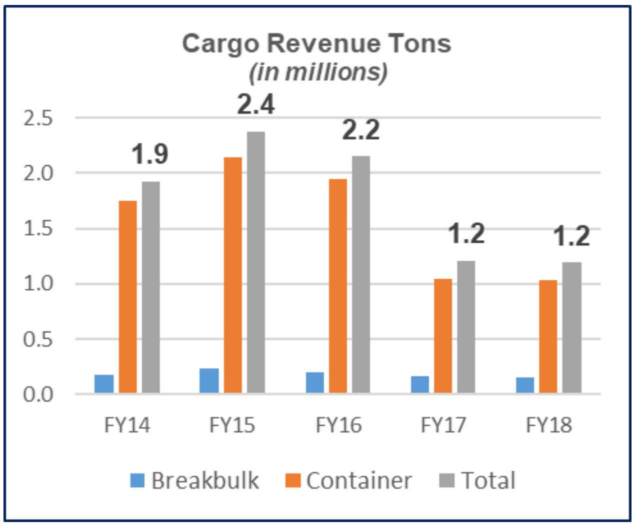
	2018	2017 (Restated)	2016
Operating revenues:			
Cargo throughput charges	$ 39,454	$ 36,807	$ 38,206
Wharfage charges	5,435	4,986	4,930
Equipment and space rental	9,015	8,769	8,753
Special services	206	224	226
Other operating revenue	58	108	93
Total operating revenue	54,168	50,894	52,208
Recovery of (provision for) bad debts	162	(141)	341
	54,330	50,753	52,549
Operating expenses:			
Operations	11,091	12,351	11,593
Equipment maintenance	6,087	5,641	5,447
Facility maintenance	1,945	1,987	1,665
Management and administration	10,433	10,822	10,039
Retiree health care benefits	6,765	7,551	1,938
General expenses	8,213	7,696	8,493
Total operating expenses before depreciation	44,534	46,048	39,175
Operating income before depreciation	9,796	4,705	13,374
Depreciation	6,210	6,103	6,145
Operating income (loss)	3,586	(1,398)	7,229
Non-operating expenses, net	3,922	436	2,835
(Loss) income before capital contributions	(336)	(1,834)	4,394
Capital contributions-US Government Grants	233	310	1,379
(Decrease) increase in net position	(103)	(1,524)	5,773
Net position at beginning of the year	12,019	13,543	81,208
Restatement of beginning net position	-	-	(73,438)
Net position at end of year	$ 11,916	$ 12,019	$ 13,543

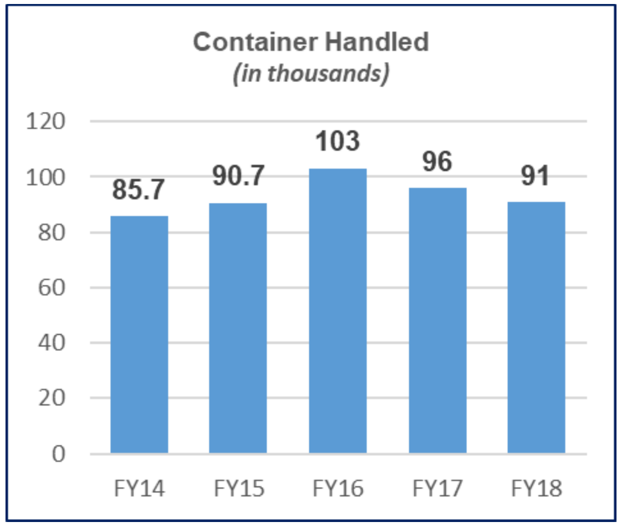
Revenues

- PAG Docket 17-01, 5 Year Tariff was approved by the Public Utilities Commission (PUC) on April 27, 2017. In January 1, 2018, the Port implemented the second-year rate increase. The Authority implemented a 7% increase to PAG's Terminal Tariff rates except for the Bunkering/Fuel throughput/Waste Oil rates and the Crane Surcharge.
- Vessel and cargo services revenues in FY 2018 increased by $3.0 million. The increase was primarily due to the tariff rate implementation.
- Facility usage and leases increased by $246 thousand from FY 2017 to FY 2018. Increases were primarily due to fuel throughput volume handled in 2018 and storage charges on cargo.
- Federal contributions in FY 2018 decreased by $77 thousand, from $310 thousand in FY 2017 to $233 thousand in FY 2017. Decrease was a result of the completed federal projects in FY2017.









The number of containers handled in Fiscal Year 2018 decreased by 5%, from 96 thousand in Fiscal Year 2017 down to 91 thousand in Fiscal Year 2018. Of that total, transshipment containers decreased by 19% from 32 thousand containers in FY2017 to 26 thousand containers in FY2018. Local cargo increased by 1%, from 64 thousand containers in FY2017 to 65 thousand containers in FY2018.

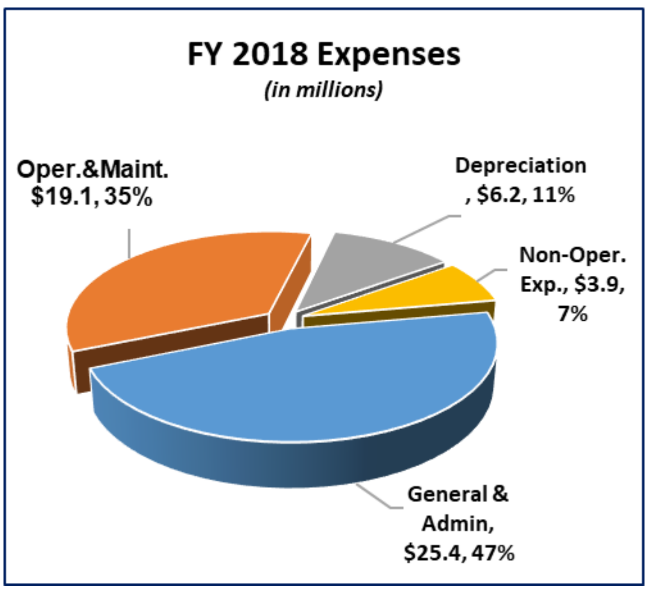
The total revenue tonnage of cargo handled in Fiscal Year 2018 is almost the same as the total revenue tonnage in Fiscal Year 2017, with a 2% negative variance for FY2018 total of almost 1.2 million revenue tonnage.

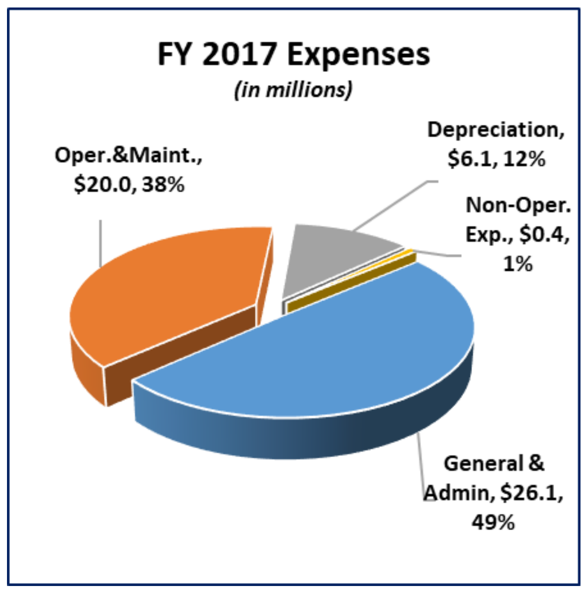
Expenses

In Fiscal Year 2018, total operating expenses were $44.5 million and non-operating expenses were $3.9 million. Operating expense decreased by $1.5 million and non-operating expenses increased $3.5 million compared to fiscal year 2017. Operating expenses for General Expense increased by $517 thousand, Management & Administration decreased $389 thousand, Operations decreased by $1.3 million. Non-operating expenses increased by $3.5 million due to payoff interest expense of refinanced loans, interest and costs of issuance of the 2018 bonds and the decrease of grant revenues in FY2018.

Although the total operating expenses decreased due to the adjustment of sick leave accrual of employees that used to be in the DC Plan and switch over to the new retirement plan of DB 1.75, other expenses such as operational supplies, repairs and maintenance and contractual services for operations and maintenance have increased. This is primarily due to high value parts and materials and maintenance costs that were procured in 2018 for the maintenance of all lifting equipment. One of the major reasons for the increase in maintenance costs was related to the preparation of the crane certification that is scheduled in the early part of 2019.

In Fiscal Year 2017, total operating expenses were $46 million and non-operating expenses were $436 thousand. Operating expenses increased by $6.9 million and non-operating expenses decreased by $2.4 million compared to fiscal year 2016.





Port Modernization Plan

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

The Guam Commercial Port Improvement Program Phase I, Renovation of the CFS building into a 7,200 sp. Ft. single story office building for Port Operations personnel that were to be displaced as a result of the demolition of Warehouse 2 was completed and accepted by the Port on October 1, 2014.

Phase II, Demolition of Warehouse 2 and other selected structures, paving repairs to increase break bulk staging area to approximately 9 acres was completed in 2014 and was utilized by the Port beginning October 1, 2014.

Phase III, Facility Expansion, which is the largest construction project of the GCPI Program was completed in 2015. The expansion included expanding the Port's container yard by 4.6 acres, installation of high mast lighting in predetermined areas, a new terminal gate complex and runway, installation of oil water separators as required by Guam EPA, expansion of the east bulk yard and construction of dedicated suppression water tank. On August 3, 2015, MARAD did a partial turnover to the Port. The Port recorded Phase III in August 2015 as the Port was utilizing the facilities. On October 4, 2015, MARAD had turned over the remaining completed projects. Cost of the projects was taken from MARAD Financial Dashboard as of September 30, 2015. Adjustment to the facility expansion was recorded as a result of the updated Financial Dashboard as of September 2016. MARAD is working on closing out the project and the Port is expecting to receive the final costs and the remaining available funds are to be utilized to purchase equipment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

In FY 2018, there were no major asset acquisitions and construction projects are still in planning stage and/or tied up with the procurement process. This resulted in a decrease of Capital assets balance from $124 million in Fiscal Year 2017 to $119 million in Fiscal Year 2018. This was primarily due to the normal depreciation of assets each year.

Refer to note 3 to the financial statements for additional details regarding capital asset activities during fiscal years 2018 and 2017.

Debt

On December 17, 2017, Acting Governor Ray Tenorio signed Bill 157-34 into Public Law 34-70. This law authorized the Port to issue revenue bonds with a principal amount not to exceed $72 million. The issuance of the bonds addresses capital improvement projects of the Port Authority and refinancing of outstanding loans. The final amount sold for the 2018 Port Revenue Bonds was $71.445 million.

The revenue bond only addressed the refinancing of 3 out of the 4 outstanding loans by the Port. The Board of Directors, during a special Board meeting in July 2018, approved the balance payoff of the Port's $3.5 million loan with ANZ.

The following Port loans were paid off in July 2018.

1. $2 Million USDA loan with an outstanding amount of $1.2 million
2. $12 Million ANZ loan with an outstanding amount of $8.8 million
3. $10 Million Bank of Guam loan with an outstanding amount of $7.3 million
4. $3.5 Million ANZ loan with an outstanding amount of $2.1 million

Details of the 2018 Port Revenue Bonds follows:

Port Authority of Guam

2018 Revenue Bonds

TYPE	PRINCIPAL	INTEREST RATE	INTEREST PYMT. DUE	FINAL PAYMENT
Series A	$ 29,980,000	5%	Jan. & Jul.	July 2048
Series B	$ 23,145,000	5%	Jan. & Jul.	July 2037
Series C	$ 18,320,000	3.587% - 4.582%	Jan. & Jul.	July 2028

Refer to note 6 to the financial statements for additional details regarding financing activities during fiscal years 2018 and 2017.

Pending Litigation

The Port is in litigation with Guam YTK Corporation (YTK), a former tenant, regarding a lease agreement dated December 14, 2001. In 2012, YTK submitted its Claim against the Government of Guam. In 2013, the Superior Court of Guam issued a Decision and Order dismissing YTK's claims, which YTK appealed. In July 2014, the Supreme Court of Guam granted YTK's motion to compel arbitration. Arbitration began in 2016 and arbitrators issued a decision in favor of YTK. The arbitrators awarded YTK: (1) Award amount of $12.7M; (2) Ten percent (10%) interest per annum on the unpaid balance of the Award amount; and (3) Attorneys' fees of $1. 3M and costs of $138 thousand. In July 2016, the Port filed a Motion to Vacate Arbitration Award in Superior Court of Guam. Judge Sukola denied the Port's motion on December 29, 2016.

On January 19, 2017, the Board of Directors duly passed a resolution authorizing legal counsel to defend the Port against the April 4, 2016 Arbitration Award and December 29, 2016 Superior Court of Guam Decision and Order. The Board further directed legal counsel to take this matter before the Supreme Court to protect the Port's interest. Legal Counsel submitted a brief for the appeal in January 2018.

The Authority is also a defendant in other various lawsuits that developed from the carrying out of the Port's normal business.

FISCAL YEAR 2019 OUTLOOK

The following are the courses of action that the Port aims to accomplish or complete in FY 2019:

Bond Financing Projects

The following are the capital projects under the 2013 Port Master Plan update and other projects identified by management to replace aging facilities. The 2018 Port Bond will be funding these projects.

- Rehabilitation of H-Wharf and Access Road (local share)
- Replacement of the Administration Building
- Waterline Relocation
- Warehouse Building Repairs/Upgrades
- Equipment Maintenance & Repair (EQMR) Building
- Golf Pier Repairs

Facility Maintenance Fee Projects

Through the Facility Maintenance Fee, the Authority plans to address the following projects:

- A/E Services for Wheel Stopper, Storm Drainage System Repair & Gate House Repair
- Concrete Storm Drain Channel System Upgrade
- Container Yard Water Line Valves
- Container Yard Asphalt Pavement Repairs
- Installation of 61 Additional Reefer Outlets
- Replacement of 4,000 Gallon Surface Diesel Fuel Tank with an 8,000 Gallon Tank

Port Security Grant Program (PSGP)

Through the Port Security Grant Program of the U.S. Department of Homeland Security program, the Authority proceeded with the following projects:

- PAG was awarded the 2016 PSGP for two projects: 1) procurement of additional cameras for Hagatña Marina, Agat Marina, and the Port, and 2) Phase III supplemental lighting project for Industrial Road, roadway heading to H-Wharf, and other strategic Port locations.
- PAG was awarded the 2017 PSGP for three projects: 1) Refurbishment and Hardening of Load Center Buildings Housing Prime Generators, 2) Maintenance and Sustainment Contract for Prime Power Generators and 3) U.S. Coast Guard-endorsed NASBLA Tactical Operator's Course for Port Police.
- PAG was recently awarded the 2018 PSGP for three projects: 1) Replacement of CCTV system, 2) Integrated Digital Enhanced Network Technology Redundant Interoperable Communication System Service and 3) Maintenance and sustainment contract for FEMA acquired AS&E ZBV Backscatter X-Ray Van.

Other Marina and Harbor of Refuge Projects

- Agat Marina demolition of B Dock under the Department of Agriculture Sport Fish Restoration Program. The Port anticipates to complete this project in Fiscal Year 2019.
- Renovation of the Guam Harbor of Refuge-Architectural and Engineering Design including Environmental Study Phase for the moorings was completed on September 2015 under Boating Infrastructure Grant Program Tier I. U.S. Wildlife Fisheries Service requested additional site assessment be performed to the actual moorage system, this was completed in November 2016. Architectural and Engineering Design of the pump-out system with shelter was completed in February 2017. Procurement and construction of pump out facility is anticipated to commence in latter part of 2019.

H-Wharf

On July 29, 2016, PAG was awarded $10 Million under the FY 2016 Transportation Investment Generating Economic Recovery (TIGER) Grant, the remaining balance will be funded by PAG for the reconstruction, and expansion of H-Wharf built in 1948, including a new sheet pile bulkhead retaining wall and upgrades to an access road. The project also includes demolition of surface facilities and construction of additional structural components.

TIGER grants are one of the few federal funding programs available to public port authorities to help pay for critical infrastructure to move and handle freight more efficiently. $61.8 million are going to six (6) commercial seaports. The Port was one of the six ports in the nation to receive TIGER grant to help pay for critical infrastructure. The Port plans to use bond funding for its matching share. PAG anticipates project to commence in latter part of 2019.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

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

Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in the report on the audit of financial statements which is dated April 19, 2018. That Discussion and Analysis explains in more detail major factors impacting the 2017 financial statements. A copy of that report can be obtained via the contact below.

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

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

Statements of Net Position
September 30, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2018	2017 As Restated (Note 1)
Current assets:		
Cash and cash equivalents - unrestricted	$ 17,962,443	$ 33,104,546
Cash and cash equivalents - restricted expendable	40,972,210	6,159,692
Total cash and cash equivalents	58,934,653	39,264,238
Accounts receivable, net of allowance for doubtful accounts of $228,469 and $563,854 in 2018 and 2017, respectively	5,493,976	7,075,677
Federal receivables	38,422	704,549
Prepaid expenses	58,055	15,874
Total current assets	64,525,106	47,060,338
Replacement parts inventories, net of allowance for obsolescence of $87,549 and $77,364 in 2018 and 2017, respectively	633,143	464,832
Cash and cash equivalents - restricted expendable	47,991,705	-
Depreciable property, plant and equipment, net	112,138,207	117,438,696
Nondepreciable property, plant and equipment	6,466,205	6,391,706
Total assets	231,754,366	171,355,572
Deferred outflows of resources from pension	6,089,779	6,176,940
Deferred outflows of resources from other post-employment benefits	8,188,307	9,832,928
Total deferred outflows of resources	14,278,086	16,009,868
Total assets and deferred outflows of resources	$ 246,032,452	$ 187,365,440
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Current portion of long-term debt	$ 1,320,000	$ 2,350,902
Accounts payable, trade and others	2,959,550	2,568,562
Security deposits and other payables	1,065,406	389,498
Accrued payroll and withholdings	809,758	779,339
Current portion of accrued annual leave	1,267,947	1,232,707
Unearned revenue	276,547	201,802
Total current liabilities	7,699,208	7,522,810
Long-term debt, net of current portion	75,377,614	18,858,975
Net pension liability	54,652,898	56,767,410
Other post-employment benefits liability	84,786,658	88,837,187
Accrued annual leave, net of current portion	552,540	444,045
Accrued sick leave	993,731	1,893,141
Total liabilities	224,062,649	174,323,568
Deferred inflows of resources from pension	2,787,692	1,008,960
Deferred inflows of resources from other post-employment benefits	7,265,551	13,651
Total deferred inflows of resources	10,053,243	1,022,611
Commitments and contingencies		
Net position:		
Net investment in capital assets	89,898,503	102,242,086
Restricted - expendable	30,475,208	6,159,692
Unrestricted	(108,457,151)	(96,382,517)
Total net position	11,916,560	12,019,261
Total liabilities, deferred inflows of resources and net position	$ 246,032,452	$ 187,365,440

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017 As Restated (Note 1)
Operating revenues:		
Cargo throughput charges	$ 33,495,537	$ 30,714,755
Equipment and space rental	9,015,052	8,768,740
Crane surcharge	5,958,206	6,092,371
Wharfage charges	5,435,177	4,986,049
Special services	205,710	223,791
Other operating income	57,817	108,227
	54,167,499	50,893,933
Recovery of (provision for) bad debts	162,228	(141,322)
	54,329,727	50,752,611
Operating expenses:		
Management and administration	10,433,337	10,821,867
Retiree healthcare and other benefits	6,765,055	7,551,321
Depreciation	6,210,100	6,103,304
Equipment maintenance	6,087,422	5,640,444
Transportation services	4,922,793	5,549,586
General expenses	3,909,764	3,733,610
Stevedoring services	3,629,230	3,992,789
Terminal services	2,538,736	2,808,718
Insurance	2,533,517	2,509,713
Facility maintenance	1,944,788	1,986,947
Utilities	1,769,342	1,451,907
Total operating expenses	50,744,084	52,150,206
Earnings (loss) from operations	3,585,643	(1,397,595)
Nonoperating (expenses) revenues:		
U.S. Government operating grants	275,548	835,873
Other income (expense), net	(656,150)	6,767
Interest (expense) income, net	(3,239,947)	(1,060,269)
Loss on disposal of property, plant and equipment	(301,127)	(218,269)
Total nonoperating expenses, net	(3,921,676)	(435,898)
Loss before capital contributions	(336,033)	(1,833,493)
Contributed capital:		
U.S. Government grants	233,332	310,442
Decrease in net position	(102,701)	(1,523,051)
Net position at beginning of year	12,019,261	13,542,312
Net position at end of year	$ 11,916,560	$ 12,019,261

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017 As Restated (Note 1)
Cash flows from operating activities:		
Cash received from customers	$ 55,986,174	$ 48,275,412
Cash payments to suppliers for goods and services	(13,625,317)	(10,218,376)
Cash payments to employees for services and benefits	(27,606,230)	(28,306,836)
Net cash provided by operating activities	14,754,627	9,750,200
Cash flows from investing activity - interest received	348,051	55,439
Cash flows from capital and related financing activities:		
Capital grants received	348,259	184,716
Proceeds from long-term debt	76,741,754	3,130,450
Repayment of long-term debt	(21,209,877)	(1,753,997)
Interest paid	(2,820,297)	(1,115,708)
Purchase of property, plant and equipment	(1,285,237)	(7,203,672)
Net cash provided by (used in) capital and related financing activities	51,774,602	(6,758,211)
Cash flows from non-capital related financing activities:		
Operating grants received	826,748	437,651
Other non-capital activities	(41,908)	6,767
Cash provided by non-capital related financing activities	784,840	444,418
Net increase in cash and cash equivalents	67,662,120	3,491,846
Cash and cash equivalents at beginning of year	39,264,238	35,772,392
Cash and cash equivalents at end of year	$ 106,926,358	$ 39,264,238

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued
Years Ended September 30, 2018 and 2017

	2018	2017 As Restated (Note 1)
Reconciliation of earnings (loss) from operations to net cash provided by operating activities:		
Earnings (loss) from operations	$ 3,585,643	$ (1,397,595)
Adjustments to reconcile earnings (loss) from operations to net cash provided by operating activities:		
Depreciation	6,210,100	6,103,304
(Recovery of) provision for bad debts	(162,228)	141,322
Pension (recovery) cost	(248,619)	889,897
Other post-employment benefit costs	4,845,992	5,579,982
Changes in operating assets and liabilities:		
Accounts receivable, net	1,743,929	(2,324,594)
Prepaid expenses	(42,181)	46,441
Replacement parts inventories, net	(168,311)	(181,948)
Accounts payable, trade and others	(420,853)	692,899
Security deposits and other payables	61,666	(691)
Accrued payroll and withholdings	30,419	113,485
Accrued annual leave	143,735	138,341
Unearned revenue	74,745	(293,927)
Accrued sick leave	(899,410)	243,284
Net cash provided by operating activities	$ 14,754,627	$ 9,750,200

See accompanying notes to financial statements.

(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.

(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, 2018 and 2017 is expendable.

Unrestricted:

Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Cash and Cash Equivalents

For purposes of the statements of net position and of cash flows, cash and cash equivalents is defined as cash on hand, deposits in banks, time certificates of deposit, money market funds and short-term investments in U.S. Treasury obligations with initial maturities of three months or less. Restricted cash is considered to be cash and cash equivalents but 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, 2018 and 2017 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, 2018 and 2017, receivables that are more than thirty days past due totaled $867,078 and $1,991,313, respectively. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Uncollectible accounts are written-off against the allowance or are charged to expense in the period the Authority deems the accounts to be uncollectible.

(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. Thus, replacement parts inventories are classified as non-current assets.

Property, Plant and Equipment and Depreciation

Land is recorded at its appraised value on the date of transfer from GovGuam. Buildings and structures are stated at cost, which includes interest during the construction period. Equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 40 years for buildings and equipment). Current policy is to capitalize individual purchases over $1,000 with useful lives exceeding one year. Normal maintenance and repairs are charged to operating expense as incurred; expenditures for major additions, improvements, infrastructure and replacements are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal with the resulting gain or loss credited or charged to nonoperating revenue or expense, respectively.

Compensated Absences

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

In accordance with Public Law No. 27-5 and Public Law No. 28-68, employee vacation 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 vacation credits from 480 to 320 hours. Public Law No. 27-106 allows employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, to carry over their excess and to use the excess amount of leave prior to retirement or termination from service or they may credit not more than 100 excess hours to sick leave. However, at retirement, lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours is not allowed.

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

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

Pensions

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

Other Post-employment Benefits (OPEB)

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

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

Deferred Outflows of Resources

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

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

Deferred Inflows of Resources

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

Taxes

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

Risk Management

The Authority has commercial insurance coverage for directors' and officers' liability, comprehensive liability, employee dishonesty and forgery, money and securities loss, and automobile injury and property damage. Worker's compensation is managed through the local Department of Labor under the Government of Guam Special Fund (Special Fund); however, the Authority reimburses the Special Fund for the costs of claims. The Authority also has commercial property insurance coverage for 100% of the total net book value of property, plant and equipment, subject to deductibles. The Authority incurred no casualty losses in excess of insurance coverage during the years ended September 30, 2018, 2017 and 2016.

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.

New Accounting Standards

During the year ended September 30, 2018, the Authority implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The implementation of this statement had a material effect on the accompanying financial statements resulting in the restatement of the Authority's fiscal year 2017 financial statements to reflect the reporting of the OPEB liability, deferred inflows of resources and deferred outflows of resources for its OPEB plan and the recognition of OPEB expense in accordance with the provisions of GASB Statement No. 75.

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

New Accounting Standards, Continued

The implementation of GASB Statement No. 75 results in the Authority reporting deferred outflows of resources of $1,854,247 and OPEB liability of $75,292,175 as of October 1, 2016. The Authority's net position as of October 1, 2016 and the statement of revenues, expenses, and changes in net position for the year ended September 30, 2017 have been restated to reflect the required adjustments as follows.

	As Previously Reported	Adjustment	As Restated
As of October 1, 2016:			
Net position	$ 86,980,240	$ (73,437,928)	$ 13,542,312
For the year ended September 30, 2017:			
Change in net position	$ 4,056,931	$ (5,579,982)	$ (1,523,051)
As of September 30, 2017:			
Deferred outflows of resources from other post-employment benefits	$ -	$ 9,832,928	$ 9,832,928
Other post-employment benefits liability	$ -	$ (88,837,187)	$ (88,837,187)
Deferred inflows of resources from other post-employment benefits	$ -	$ (13,651)	$ (13,651)
Net position	$ 91,037,171	$ (79,017,910)	$ 12,019,261

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

- GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

Except for GASB Statement No. 75, the implementation of these statements did not have a material effect on the Authority's financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61,* which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Reclassifications

Certain items in the 2017 financial statements have been reclassified to correspond with the 2018 financial statement presentation.

(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.

(2) Cash and Cash Equivalents, Continued

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 AAAm 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, 2018 and 2017, the carrying amount of the Authority's cash and cash equivalents totaled $106,926,358 and $39,264,238, respectively, and the corresponding bank balances were $105,898,226 and $39,268,752, respectively. Of the bank balance amount as of September 30, 2018 and 2017, $24,340,607 and $39,268,752 respectively, was maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank balances as of September 30, 2018 also include $81,557,619 representing short-term investments held and administered by the Authority's trustee in the Authority's name in accordance with trust agreement and the 2018 bond indenture. As of September 30, 2018 and 2017, bank deposits in the amount of $500,000 were FDIC insured for both years. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. As of September 30, 2018 and 2017, $24,868,739 and $38,764,238, respectively, of cash and cash equivalents are subject to custodial credit risk. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(2) Cash and Cash Equivalents, Continued

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

	2018	2017
Current restricted:		
2018 Bond Indenture Funds		
Capitalized interest fund	$ 5,159,266	$ -
Working capital reserve fund	3,009,413	-
Cost of issuance fund	19,565	-
Debt service fund	229,326	-
Revenue fund	4,532,488	-
Capital improvement fund	4,216,478	-
Renewal and replacement reserve fund	508,667	-
Operations and maintenance reserve fund	10,552,976	-
Bond reserve fund	5,337,736	-
	33,565,915	-
PUC Restricted Funds		
Crane replacement sinking fund	3,227,097	2,661,067
Facility maintenance fund	4,179,198	3,175,465
	7,406,295	5,836,532
Bank Debt - Note reserve fund	-	323,160
Total restricted cash and cash equivalents - current	40,972,210	6,159,692
Noncurrent restricted:		
2018 Bond Indenture Fund - Construction fund	47,991,705	-
	$ 88,963,915	$ 6,159,692

(3) Property, Plant and Equipment

A summary of changes in property, plant and equipment for the years ended September 30, 2018 and 2017 is as follows:

	Beginning Balance October 1, 2017	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2018
Depreciable:				
Buildings	$ 141,166,778	$ 114,782	$ -	$ 141,281,560
Equipment	33,433,779	1,095,956	(530,623)	33,999,112
	174,600,557	1,210,738	(530,623)	175,280,672
Less accumulated depreciation	(57,161,861)	(6,210,100)	229,496	(63,142,465)
	117,438,696	(4,999,362)	(301,127)	112,138,207
Non-depreciable:				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	2,828,706	636,964	(562,465)	2,903,205
	6,391,706	636,964	(562,465)	6,466,205
Total	$ 123,830,402	$ (4,362,398)	$ (863,592)	$ 118,604,412

(3) Property, Plant and Equipment, Continued

	Beginning Balance October 1, 2016	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2017
Depreciable:				
Buildings	$ 131,289,544	$ 9,877,234	$ -	$ 141,166,778
Equipment	25,465,931	9,430,525	(1,462,677)	33,433,779
	156,755,475	19,307,759	(1,462,677)	174,600,557
Less accumulated depreciation	(52,322,165)	(6,103,304)	1,263,608	(57,161,861)
	104,433,310	13,204,455	(199,069)	117,438,696
Non-depreciable:				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	14,951,993	2,341,019	(14,464,306)	2,828,706
	18,514,993	2,341,019	(14,464,306)	6,391,706
Total	$ 122,948,303	$ 15,545,474	$ (14,663,375)	$ 123,830,402

(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, members of the DB Plan and the DCRS Plan who retired prior to September 30, 2017 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.

(4) Pensions, Continued

A. General Information About the Pension Plans, Continued:

Plan Membership: As of September 30, 2017 (the measurement date), plan membership consisted of the following:

DB members:	
Inactive employees or beneficiaries currently receiving benefits	7,279
Inactive employees entitled to but not yet receiving benefits	4,289
Active employees	2,058
	13,626
DCRS members:	
Active employees	9,027
	22,653

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

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

Supplemental annuity benefit payments are provided to DB retiree members 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 retiree and DCRS members in a lump sum amount of $2,000. Both supplemental annuity benefit payments and COLA payments are made at the discretion of the Guam Legislature, but are funded on a "pay-as-you-go" basis so there is no plan trust. It is anticipated that ad hoc COLA and supplemental annuity payments will continue to be made for future years at the same level currently being paid.

(4) Pensions, Continued

A. General Information About the Pension Plans, Continued:

On September 20, 2016, the Guam Legislature enacted Public Law 33-186, which created two new government retirement plans; the DB 1.75 Plan and the 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. Beginning January 1, 2018, all new employees shall be automatically enrolled in the GRSP. New employees have sixty (60) days from the date of hire to elect to participate in the DCRS.

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.

Contributions and Funding Policy: Contribution requirements of participating employers and active members to the DB Plan are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example, the September 30, 2016 actuarial valuation was used for determining the year ended September 30, 2018 statutory contributions. Member contributions are required at 9.55% of base pay.

As a result of actuarial valuations performed as of September 30, 2016, 2015 and 2014, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2018, 2017 and 2016, respectively, have been determined as follows:

	2018	2017	2016
Normal costs (% of DB Plan payroll)	15.97%	16.27%	15.86%
Employee contributions (DB Plan employees)	9.55%	9.55%	9.54%
Employer portion of normal costs (% of DB Plan payroll)	6.42%	6.72%	6.32%
Employer portion of normal costs (% of total payroll)	1.60%	1.87%	1.94%
Unfunded liability cost (% of total payroll)	22.12%	21.60%	22.42%
Government contribution as a % of total payroll	23.72%	23.47%	24.36%
Statutory contribution rates as a % of DB Plan payroll:			
Employer	27.83%	27.41%	28.16%
Employee	9.55%	9.55%	9.54%

(4) Pensions, Continued

A. General Information About the Pension Plans, Continued:

The Authority's contributions to the DB Plan for the years ended September 30, 2018, 2017 and 2016 were $2,666,133, $1,327,533, and $1,343,278, respectively, which were equal to the statutorily required contributions for the respective years then ended.

The Authority's contributions to the supplemental annuity benefit payments and the COLA payments for the years ended September 30, 2018, 2017 and 2016 were $1,082,514, $1,061,915 and $1,092,210, 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 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions for the DCRS plan for the year ended September 30, 2018 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the 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, 2018, 2017 and 2016 were $2,358,320, $3,548,584 and $3,251,007, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, $1,874,487, $2,882,959 and $2,673,768 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2018, 2017 and 2016, respectively.

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

Pension Liability: At September 30, 2018 and 2017, the Authority reported a net pension liability for its proportionate share of the net pension liabilities measured as of September 30, 2017 and 2016, respectively, which is comprised of the following:

	2018	2017
Defined Benefit Plan	$ 39,782,133	$ 43,796,523
Ad Hoc COLA/supplemental annuity Plan for DB retirees	11,683,996	9,759,549
Ad Hoc COLA Plan for DCRS retirees	3,186,769	3,211,338
	$ 54,652,898	$ 56,767,410

(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, 2018 and 2017, the Authority's proportionate shares of the GovGuam net pension liabilities were as follows:

	2018	2017
Defined Benefit Plan	3.48%	3.20%
Ad Hoc COLA/supplemental annuity Plan for DB retirees	4.05%	4.25%
Ad Hoc COLA Plan for DCRS retirees	5.10%	5.21%

Pension Expense: For the years ended September 30, 2018 and 2017, the Authority recognized pension expense for its proportionate share of plan pension expense from the above pension plans as follows:

	2018	2017
Defined Benefit Plan	$ 2,389,588	$ 5,165,848
Ad Hoc COLA/supplemental annuity Plan for DB retirees	2,894,350	719,925
Ad Hoc COLA Plan for DCRS retirees	226,407	241,934
	$ 5,510,345	$ 6,127,707

Deferred Outflows and Inflows of Resources: At September 30, 2018 and 2017, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018					
	Defined Benefit Plan		Ad Hoc COLA/SA Plan for DB Retirees		Ad Hoc COLA Plan for 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	$ -	$ -	$ -	$ -	$ 144,792	$ 24,755
Net difference between projected and actual earnings on pension plan investments	-	1,933,360	-	-	-	-
Changes of assumptions	-	-	-	-	321,853	211,942
Contributions subsequent to the measurement date	4,540,620	-	988,514	-	94,000	-
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	-	-	-	-	-	617,635
	$ 4,540,620	$ 1,933,360	$ 988,514	$ -	$ 560,645	$ 854,332

(4) Pensions, Continued

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

	2017					
	Defined Benefit Plan		Ad Hoc COLA/SA Plan for DB Retirees		Ad Hoc COLA Plan for 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	$ -	$ 144,281	$ 764	$ -	$ 61,988	$ 27,030
Net difference between projected and actual earnings on pension plan investments	-	229,077	-	-	-	-
Changes of assumptions	124,701	-	10,067	-	350,709	-
Contributions subsequent to the measurement date	4,210,492	-	979,915	-	82,000	-
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	356,304	-	-	2,196	-	606,376
	$ 4,691,497	$ 373,358	$ 990,746	$ 2,196	$ 494,697	$ 633,406

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, 2018 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
2019	$ (432,340)	$ -	$ (33,543)
2020	(115,113)	-	(33,543)
2021	(826,979)	-	(33,543)
2022	(558,928)	-	(33,543)
2023	-	-	(33,543)
Thereafter	-	-	(219,972)
	$ (1,933,360)	$ -	$ (387,687)

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

Valuation date:	September 30, 2016
Actuarial cost method:	Entry age normal

(4) Pensions, Continued

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

Amortization method:	Level percentage of payroll, closed
Remaining amortization period:	May 1, 2031 (14.58 years remaining as of September 30, 2016)
Asset valuation method:	3-year smoothed market value (effective September 30, 2009)
Inflation:	2.75% per year
Total payroll growth:	2.75% per year
Salary increases:	4.00% to 7.50%
Retirement age:	50% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 20% until age 75, and increases to 100% at age 75.
Mortality:	RP-2000 healthy mortality table set forward by 3 years for males and 2 years for females. Mortality for disabled lives is the RP 2000 disability mortality table set forward by 6 years for males and 4 years for females.

The actuarial assumptions used in the September 30, 2016 valuation were based on the results of an actuarial experience study for the period October 1, 2011 to September 30, 2015.

The investment rate assumption as of September 30, 2016 was 7%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the expected nominal return for each major asset class are summarized in the following table:

(4) Pensions, Continued

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

Asset Class	Target Allocation	Nominal Return
U.S. Equities (large cap)	29%	8.78%
U.S. Equities (small cap)	7%	9.45%
Non-U.S. Equities	13%	9.15%
Non-U.S. Equities (small cap)	4%	9.15%
Non-U.S. Equities (emerging markets)	1%	10.75%
U.S. Fixed Income (aggregate)	25%	4.85%
Risk parity	8%	8.36%
High yield bonds	8%	7.35%
Global Real Estate (REITs)	5%	8.71%

Changes in Actuarial Assumptions: The following changes in actuarial assumptions occurred from the September 30, 2015 valuation to the September 30, 2016 valuation:

Mortality: The mortality table used as of September 30, 2016, is the RP-2000 combined mortality table, set forward by 3 years for males and 2 years for females. The mortality table used for disabled lives is the RP-2000 disability mortality table, set forward by 6 years for males and 4 years for females. Mortality improvement is assumed to be 30% of Scale BB, projected generationally from 2016. For the prior valuation, the mortality table used was the RP-2000 combined mortality table, set forward by 4 years for males and 1 year for females. The mortality table used for disabled lives was the RP-2000 disability mortality table for males and females. No provision was made for future mortality improvement in the prior valuation.

Salary Increases: Salaries are assumed to increase 7.5% per year for employees in their first 5 years of service, 6.0% for service between 6 and 10 years, 5.0% for service between 11 and 15 years, and 4.0% for service after 15 years. For the prior valuation, salaries were assumed to increase 7.5% per year for employees in their first 5 years of service, 6.0% for service between 6 and 10 years, 5.0% for service between 11 and 15 years, and 4.5% for service after 15 years.

Total Payroll Growth: Total payroll for defined benefit and defined contribution members is assumed to increase 2.75% per year. For the prior valuation, total payroll for defined benefit and defined contribution members was assumed to increase 3.0% per year.

Retirement Age: 50% of employees are assumed to retire when first eligible for unreduced retirement. Thereafter, 20% of employees will retire at each year until age 75, at which time all remaining employees are assumed to retire. For the prior valuation, 40% of employees are assumed to retire when first eligible for unreduced retirement. Thereafter, 15% of employees would retire at each year until age 65, and 20% of employees would retire from age 65 until age 70, at which time all remaining employees were assumed to retire.

(4) Pensions, Continued

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

Rates of Disability: The assumed rates of disability are based on the 1974-78 Society of Actuaries Long Term Disability Non-Jumbo table, with rates reduced by 50% for males and 75% for females. For the prior valuation, these rates were based on the 1974-78 Society of Actuaries Long Term Disability Non-Jumbo, with rates reduced by 50% for both males and females.

Leave Adjustments: Unused leave is assumed to increase a member's service by 1.5 years and increases average earnings by 5% at retirement. For the prior valuation, unused leave is assumed to increase service by 1.5 years and increased average earnings by 10% at retirement.

Survivor Benefit - Minor Children: An average of 0.2 eligible child survivors is assumed at the time of a retiree's death, with payments to the child survivor continuing for 6 years. For the prior valuation, this survivor benefit was assumed to increase the value of retirement benefits by 0.67% and survivor benefits by 20% for active members.

Discount Rate: The discount rate used to measure the total pension liability for the DB Plan as of September 30, 2017 was 7.0% (6.7% as of September 30, 2016), which is equal to the expected investment rate of return. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except supplemental annuity payments to DB retirees and ad hoc COLA to both DB and DCRS retirees. The discount rate used to measure the total pension liability for the supplemental annuity and ad hoc COLA payments as of September 30, 2017 was 3.64% (3.058% as of September 30, 2016), which is equal to the rate of return of a high quality bond index.

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

Defined Benefit Plan:

	1% Decrease in Discount Rate 6.0%	Current Discount Rate 7.0%	1% Increase in Discount Rate 8.0%
Net Pension Liability	$ 49,374,266	$ 39,782,133	$ 31,520,526

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees:

	1% Decrease in Discount Rate 2.64%	Current Discount Rate 3.64%	1% Increase in Discount Rate 4.64%
Net Pension Liability	$ 12,748,370	$ 11,683,996	$ 10,758,430

(4) Pensions, Continued

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

Ad Hoc COLA Plan for DCRS Retirees:

	1% Decrease in Discount Rate 2.64%	Current Discount Rate 3.64%	1% Increase in Discount Rate 4.64%
Net Pension Liability	$ 3,623,693	$ 3,186,769	$ 2,814,512

C. Payables to the Pension Plans:

As of September 30, 2018 and 2017, the Authority recorded payables to GGRF of $275,454 and $238,762, respectively, representing statutorily required contributions unremitted as of the respective year-ends.

(5) Other Post-Employment Benefits

A. General Information About the OPEB Plan:

Plan Description: The Authority participates in the retiree health care benefits program - an agent multiple-employer defined benefit plan administered by the GovGuam's Department of Administration. The OPEB plan provides healthcare benefits to eligible employees and retirees who are members of the GovGuam Retirement Fund. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The Governor's recommended budget and the annual General Appropriations Act enacted by the Guam Legislature provide for a premium level necessary for funding the program each year on a "pay-as-you-go" basis. Because the OPEB Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

Plan Membership: As of September 30, 2016, the date of the most recent valuation (the actuarial valuation date), plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	7,342
Active plan members	10,282
	17,624

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

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

(5) Other Post-Employment Benefits, Continued

A. General Information About the OPEB Plan, Continued:

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

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

For the years ended September 30, 2018, 2017 and 2016, the Authority reimbursed GovGuam $1,862,828, $1,915,431 and $1,854,247, respectively, for its share of the costs of the above mentioned Plan, which were equal to the statutorily required contributions.

B. Total OPEB Liability:

Actuarial Assumptions: The total OPEB liability for the OPEB Plan was determined by an actuarial valuation as of September 30, 2016 rolled forward to September 30, 2017 (the measurement date) using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	3.00%
Amortization method:	Level dollar amount over 30 years on an open amortization period for pay-as-you-go funding
Salary increases:	7.5% per year for the first 5 years of service, 6% for 5-10 years, 5% for 11-15 years and 4.5% for service over 15 years
Healthcare cost trend rates:	8% for 2016, decreasing 0.25% per year to an ultimate rate of 4.5% for 2030 and later years. Health care trend assumptions begin at current levels and grade down over a period of years to a lower level equal to some real rate plus inflation. The principal components of health trend are medical inflation, deductible erosion, cost shifting, utilization, technology and catastrophic claims. The overall effect of these components are expected to decline year by year.
Dental trend rates:	4% per year
Participation rates:	Medical - 100% of eligible retired employees will elect to participate. Dental - 100% of eligible retires will elect to participate. Life - 100% of eligible retirees will elect to participate.

(5) Other Post-Employment Benefits, Continued

B. Total OPEB Liability, Continued:

Medicare enrollment:	15% of current and future retirees are assumed to enroll in Medicare and will enroll in a Retiree Supplemental Plan upon attainment of age 65. All employees retired prior to September 30, 2008 are assumed ineligible for Medicare upon attainment of age 65 and therefore will not enroll in a Medicare Supplemental Plan.
Dependent status:	Male spouses are assumed to be three years older and female spouses are assumed to be three years younger than the retired employee. 60% of employees are assumed to retire with a covered spouse. For current retired employees, the actual census information is used.
Actuarial cost method:	Entry Age Normal. The costs of each employee's post-employment benefits are allocated as a level basis over the earnings of the employee between the employee's date of hire and the assumed exit ages.
Healthy retiree mortality rate:	RP-2000 Combined Healthy Mortality Table, set forward 4 years and 1 year for males and females, respectively.
Disabled retiree mortality rates:	RP-2000 Disabled Mortality Table for males and females.
Withdrawal rates:	15% for less than 1 year of service, decreasing 1% for each additional year of service up to 10 years, further decreasing 0.5% for each additional year of service up to 15 years, and 2% for service over 15 years.
Disability rates:	0.05% for beneficiaries aged 20-39 years, 0.1%-0.53% for beneficiaries aged 40-59 years, and 0.76% for beneficiaries aged 60-64 years.
Retirement rates:	40% of employees are assumed to retire at earliest eligibility for unreduced benefits under the Government of Guam Retirement Fund, 15% per year thereafter until age 65, 20% per year thereafter until age 70 and 100% at age 70. Previously, 50% of employees were assumed to retire at first eligibility for postretirement health benefits, 20% per year thereafter until age 70, and 100% at age 70.

OPEB Plan Fiduciary Net Position: As of September 30, 2018, an OPEB trust has not been established thus the OPEB Plan does not presently report OPEB plan fiduciary net position.

(5) Other Post-Employment Benefits, Continued

B. Total OPEB Liability, Continued:

Discount Rate: The discount rate used to measure the total OPEB liability was 3.63% as of September 30, 2017 (3.058% as of September 30, 2016). The projection of cash flows used to determine the discount rate assumed that contributions from GovGuam will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the 3.63% municipal bond rate as of September 30, 2017 (3.058% as of September 30, 2016) was applied to all periods of projected benefit payments to determine the total OPEB liability.

C. Changes in the Total OPEB Liability:

Changes in the total OPEB liability are as follows:

	2018	2017
At October 1	$ 88,837,187	$ 75,292,175
Changes for the year:		
Service cost	3,385,608	2,692,805
Interest	2,797,108	2,865,259
Change of assumptions	(8,724,709)	9,495,484
Benefit payments	(1,508,536)	(1,508,536)
Net change	(4,050,529)	13,545,012
At September 30	$ 84,786,658	$ 88,837,187

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 (3.63%) in measuring the 2017 OPEB Liability.

	1% Decrease in Discount Rate 2.63%	Current Discount Rate 3.63%	1% Increase in Discount Rate 4.63%
OPEB Liability	$ 100,788,946	$ 84,786,658	$ 71,951,383

Healthcare Cost Trend Rate Sensitivity Analysis: The following schedule 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 (8% decreasing to 4.5%) in measuring the 2017 OPEB Liability.

	1% Decrease 7% Year 1 Decreasing to 3.50%	Healthcare Cost Trend Rates 8% Year 1 Decreasing to 4.50%	1% Increase 9% Year 1 Decreasing to 5.50%
OPEB Liability	$ 69,609,830	$ 84,786,658	$ 104,596,720

(5) Other Post-Employment Benefits, Continued

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

At September 30, 2018 and 2017, the Authority reported a liability of $84,786,658 and $88,837,187, respectively, for its proportionate share of the GovGuam total OPEB liability measured as of September 30, 2017 and 2016. At September 30, 2018 and 2017, the Authority's proportion was 3.49% and 3.51%, respectively.

For the years ended September 30, 2018 and 2017, the Authority recognized OPEB expense of $6,708,820 and $7,495,413, respectively. At September 30, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 6,304,377	$ 7,265,551	$ 7,917,497	$ -
Contributions subsequent to the measurement date	1,862,828	-	1,915,431	-
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	21,102	-	-	13,651
	$ 8,188,307	$ 7,265,551	$ 9,832,928	$ 13,651

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at September 30, 2018 will be recognized in OPEB expense as follows:

Year Ended September 30	
2019	$ 124,594
2020	124,594
2021	124,594
2022	124,594
2023	(1,409,632)
Thereafter	(28,816)
	$ (940,072)

(6) Long-Term Liabilities

Summary

Outstanding balances of and changes in long-term liabilities as of and for the years ended September 30, 2018 and 2017 are as follows:

	Outstanding at September 30, 2017 (as restated)	Increases	Decreases	Outstanding at September 30, 2018	Current	Noncurrent
Accrued annual leave	$ 1,676,752	$ 1,446,281	$ 1,302,546	$ 1,820,487	$ 1,267,947	$ 552,540
Accrued sick leave	1,893,141	168,301	1,067,711	993,731	-	993,731
Long-term bank debt	21,209,877	-	21,209,877	-	-	-
2018 Series A bonds	-	29,980,000	-	29,980,000	-	29,980,000
2018 Series B bonds	-	23,145,000	-	23,145,000	1,320,000	21,825,000
2018 Series C bonds	-	18,320,000	-	18,320,000	-	18,320,000
Unamortized premium on 2018 Series bonds	-	5,296,754	44,140	5,252,614	-	5,252,614
Net pension liability	56,767,410	3,157,895	5,272,407	54,652,898	-	54,652,898
OPEB liability	88,837,187	6,182,716	10,233,245	84,786,658	-	84,786,658
	$ 170,384,367	$ 60,714,947	$ 39,147,926	$ 218,951,388	$ 2,587,947	$ 216,363,441

	Outstanding at September 30, 2016 (as restated)	Increases (as restated)	Decreases (as restated)	Outstanding at September 30, 2017 (as restated)	Current	Noncurrent
Accrued annual leave	$ 1,538,411	$ 1,553,943	$ 1,415,602	$ 1,676,752	$ 1,232,707	$ 444,045
Accrued sick leave	1,649,857	875,492	632,208	1,893,141	-	1,893,141
Long-term bank debt	19,833,424	3,130,450	1,753,997	21,209,877	2,350,902	18,858,975
Net pension liability	57,457,304	4,419,362	5,109,256	56,767,410	-	56,767,410
OPEB liability	75,292,175	15,053,548	1,508,536	88,837,187	-	88,837,187
	$ 155,771,171	$ 25,032,795	$ 10,419,599	$ 170,384,367	$ 3,583,609	$ 166,800,758

Long-Term Bank Debt

Long-term bank debt consists of the following:

- $2,000,000 loan obtained from United States Department of Agriculture (USDA) on July 15, 2015. The loan bears interest at 3.625% and is payable in monthly principal and interest installments of $27,000 over seven years. Proceeds of the loan were used to fund the acquisition of cargo handling equipment, which is also pledged as collateral for the loan. Outstanding principal balance as of September 30, 2017 amounted to $1,434,000. In July 2018, the loan was paid in full.

- Two loans not to exceed a total of $10,000,000 obtained from Bank of Guam on April 3, 2014. One loan (SLE Loan) was used for the purpose of funding the cost of service life extension repairs to berths and wharves. The other loan (Purchase Loan) was used for funding the cost of software acquisition for the purpose of upgrading the financial management system and for equipment purchases. Each loan bears interest at 2.55% above

(6) Long-Term Liabilities, Continued

Long-Term Bank Debt, Continued

the Federal Home Loan Bank of Seattle Long Term 5-year amortizing fixed rate in effect from time to time or 3.75% whichever is greater. The interest rate shall be adjusted on the fifth anniversary. At September 30, 2018 and 2017, the SLE and Purchase Loans bear interest at 4.14% and 3.94%, respectively. Each loan is payable in ten years from drawdown dates with only interest due for the first two years. The outstanding principal balances of the SLE and Purchase Loans as of September 30, 2017 are $5,396,840 and $2,829,050, respectively. In July 2018, the loans were paid in full.

- $12,000,000 loan obtained from ANZ Guam, Inc. (ANZ) on December 20, 2012, guaranteed by USDA. The term loan bears interest at 3.42% above the Federal Home Loan Bank of Seattle's 15-year amortizing rate at the time of funding (5.94% at September 30, 2018 and 2017) and is payable in monthly principal and interest installments of $101,427 over fifteen years. Proceeds of the loan were used to finance the acquisition of the used cranes identified as Port of Los Angeles Cranes and Gantry Cranes (collectively the "cranes") which are also pledged as collateral for the loan. Outstanding principal balance as of September 30, 2017 amounted to $9,288,632. In July 2018, the loan was paid in full.

- $3,500,000 loan obtained from ANZ on October 22, 2010, representing a portion of the $4,500,000 USDA Guaranteed Term Loan. The term loan bears interest at 3% above the Federal Home Loan Bank of Seattle's 15-year amortizing fixed advanced rate at the time of funding (6.18% at September 30, 2018 and 2017) and is payable in monthly principal and interest installments of $30,049 over fifteen years. Proceeds of the loan were used to reimburse the Authority for the acquisition of four top lifters and ten terminal yard contractors which are also pledged as collateral for the loan. Outstanding principal balance as of September 30, 2017 amounted to $2,261,355. In July 2018, the loan was paid in full.

2018 Series Revenue Bonds

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.

- 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.

- 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.

- 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.

(6) Long-Term Liabilities, Continued

2018 Series Revenue Bonds, Continued

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 bonds principal and interest. There was no debt service due for 2018.

Bond premiums of $5,296,754 associated with the 2018 series bonds are being amortized on the effective interest method over the life of the debt.

As of September 30, 2018, future maturities of long-term debt are as follows:

Year Ending September 30,	Principal	Interest	Total Debt Service
2019	$ 1,320,000	$ 3,349,829	$ 4,669,829
2020	2,380,000	3,371,392	5,751,392
2021	2,465,000	3,280,862	5,745,862
2022	2,560,000	3,182,633	5,742,633
2023	2,685,000	3,063,896	5,748,896
2024 through 2028	15,455,000	13,322,174	28,777,174
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	15,490,000	2,398,500	17,888,500
	$ 71,445,000	$ 56,534,786	$ 127,979,786

(7) Major Customers

For the years ended September 30, 2018 and 2017, the Authority has two major shipping agency customers that collectively accounted for 63.96% and 59.11% 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) Rental Operations

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

Year Ending September 30,	Amount
2019	$ 1,122,057
2020	921,338
2021	314,544
2022	238,164
2023	238,164
Thereafter	1,468,678
	$ 4,302,945

(8) Rental Operations, Continued

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 $9,015,052 and $8,768,740 for the years ended September 30, 2018 and 2017, respectively.

(9) Commitments and Contingencies

Port Modernization Plan

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

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

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

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

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.

(9) Commitments and Contingencies, Continued

Port Modernization Plan, Continued

Appropriation from the USDOD:

The appropriation from the USDOD is sourced from the 2010 U.S. Supplemental Appropriations Act that was signed into law in August 2010. The appropriation was transferred to the Fund on September 22, 2010 and is administered and disbursed by MARAD based on the terms of the MOU; with the approval and authorization of the Authority.

The Authority segregated the construction funded by the $50,000,000 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. As of September 30, 2018, the Authority has not received the close-out documents from MARAD. The Authority expects to receive the close-out documents and changes in the dashboard project expenditure summary, if any, will be accounted for prospectively in the financial statements.

The appropriation from the USDOD has a remaining $2,600,000 which is reprogrammed for the maintenance of the capital assets and for acquisition of equipment.

Appropriations from the USDA:

In October 2010, the Authority utilized $3,500,000 of the guaranteed term loan with ANZ. The Authority anticipates that it will not utilize the unused portion of the loan.

Due to changes in certain factors relating to the military buildup and cargo forecast, the Authority will not proceed with the $50,000,000 Community Facilities loans.

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, 2018 and 2017.

(9) Commitments and Contingencies, Continued

Lawsuit and Claims

The Authority is engaged in litigation with Guam YTK Corporation (YTK), a former tenant, involving a lease agreement dated December 14, 2001. In 2016, the case was submitted to arbitration as required by the terms of the lease agreement and in April 2016, the Arbitrators issued a decision awarding YTK $14 million plus interest. The Authority filed an appeal in the Superior Court of Guam to deny the award to YTK. In December 2016, the Superior Court of Guam denied the Authority's motion to vacate the Arbitration Award and granted YTK's Motion to Confirm the Award. In June 2017, the Authority filed a Notice of Appeal in the Superior Court of Guam. In January 2018, the Authority filed a Motion to Dismiss in the Supreme Court of Guam. The matter is pending decision/opinion of the Supreme Court of Guam.

The Authority is also a defendant in other various lawsuits and proceedings arising in the normal course of business. At September 30, 2018, the Authority accrued approximately $614,000 for settlement of litigation.

While the outcome of these 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 a material adverse effect on the Authority's financial statements at this time, and therefore, except as disclosed above, no provision has been recorded for litigation and claims in the 2018 and 2017 financial statements.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. The remaining estimated accrued merit bonus as of September 30, 2018 and 2017 is $54,000.

(10) Restricted Net Position

Restricted net position is composed of current cash and cash equivalent accounts required to be established by the loan agreement, the Revenue Bond 2018 Series bond indenture and PUC rate orders (see note 2).

OTHER FINANCIAL INFORMATION

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

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

Defined Benefit Plan

	2018	2017	2016	2015	2014
Total Government of Guam net pension liability	$ 1,142,249,393	$ 1,368,645,126	$ 1,436,814,230	$ 1,246,306,754	$ 1,303,304,636
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	$ 39,782,133	$ 43,796,523	$ 44,375,587	$ 37,618,961	$ 44,444,980
PAG's proportion of the net pension liability	3.48%	3.20%	3.09%	3.02%	3.41%
PAG's covered-employee payroll**	$ 17,703,032	$ 16,202,268	$ 15,793,402	$ 15,241,377	$ 15,698,669
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	224.72%	270.31%	280.98%	246.82%	283.11%
Plan fiduciary net position as a percentage of the total pension liability	60.63%	54.62%	52.32%	56.60%	53.94%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	2018	2017	2016
Total Government of Guam net pension liability***	$ 288,147,121	$ 229,486,687	$ 235,799,709
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	$ 11,683,996	$ 9,759,549	$ 10,037,574
PAG's proportion of the net pension liability	4.05%	4.25%	4.26%
PAG's covered-employee payroll**	$ 20,610,932	$ 21,532,740	$ 21,767,959
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	56.69%	45.32%	46.11%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.
*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

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

Ad Hoc COLA Plan for DCRS Retirees

	2018	2017	2016
Total Government of Guam net pension liability***	$ 62,445,490	$ 61,688,067	$ 52,115,736
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	$ 3,186,769	$ 3,211,338	$ 3,044,143
PAG's proportion of the net pension liability	5.10%	5.21%	5.84%
PAG's covered-employee payroll**	$ 19,228,448	$ 19,004,676	$ 20,788,290
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	16.57%	16.90%	14.64%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.
*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

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

	2018	2017	2016	2015	2014
Statutorily required contribution	$ 4,210,492	$ 4,017,046	$ 4,172,659	$ 4,062,777	$ 4,214,569
Contributions in relation to the statutorily required contribution	4,363,054	3,981,412	4,154,190	4,047,929	4,158,400
Contribution (excess) deficiency	$ (152,562)	$ 35,634	$ 18,469	$ 14,848	$ 56,169
PAG's covered-employee payroll **	$ 17,703,032	$ 16,202,268	$ 15,793,402	$ 15,241,377	$ 15,698,669
Contribution as a percentage of covered-employee payroll	24.65%	24.57%	26.30%	26.56%	26.49%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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

	2018	2017	2016
Service cost	$ 3,385,608	$ 2,692,805	
Interest	2,797,108	2,865,259	
Change of assumptions	(8,724,709)	9,495,484	
Benefit payments	(1,508,536)	(1,508,536)	
Net change in OPEB liability	(4,050,529)	13,545,012	
OPEB liability, beginning	88,837,187	75,292,175	
OPEB liability, ending	$ 84,786,658	$ 88,837,187	$ 75,292,175
Covered-employee payroll as of valuation date	$ 17,004,433	$ 17,004,433	
OPEB liability as a percentage of covered-employee payroll	498.62%	522.44%	
Notes to schedule:			
Discount rate	3.630%	3.058%	3.710%

Change in benefit terms:
None.

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

* This data is presented for those years for which information is available.
** No assets accumulated in a trust to pay the benefits.

See Accompanying Independent Auditors' Report.

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

	2018	2017
Total OPEB liability **	$ 2,431,048,672	$ 2,532,753,040
PAG's proportionate share of the total OPEB liability	$ 84,786,658	$ 88,837,187
PAG's proportion of the total OPEB liability	3.49%	3.51%
PAG's covered-employee payroll	$ 17,004,433	$ 17,004,433
PAG's proportionate share of the total OPEB liability as percentage of its covered-employee payroll	498.62%	522.44%

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

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

See Accompanying Independent Auditors' Report.

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

	2018	2017
Actuarially determined contribution	$ 8,055,416	$ 6,995,373
Contributions in relation to the actuarially determined contribution	1,508,536	1,508,536
Contribution deficiency	$ 6,546,880	$ 5,486,837
Covered-employee payroll as of valuation date	$ 17,004,433	$ 17,004,433
Contributions as a percentage of covered-employee payroll	8.87%	8.87%

Notes to schedule:

Valuation date:

Actuarially determined contributions rates are calculated as of September 30, 2016.

Method and assumptions used to determine contributions rates:

Actuarial cost method:	Entry age normal.
Amortization method:	Level dollar amount on an open amortization period for pay-as-you-go funding.
Amortization period:	30 years
Inflation:	3%
Healthcare cost trend rates:	8% initial, decreasing 0.25% per year to an ultimate rate of 4.5%
Salary increase:	4.5% to 7.5%
Mortality (Healthy Retiree):	RP-2000 Combined Healthy Mortality Table, set forward 4 years and 1 year for males and females, respectively.
Mortality (Disabled Retiree):	RP-2000 Disabled Mortality Table for males and females.

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

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
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Details of Operating Expenses
Years Ended September 30, 2018 and 2017

	2018	2017
Management and Administration:		
Management:		
Salaries and wages - regular	$ 493,875	$ 500,846
Pension cost	383,896	181,377
Annual leave	52,217	56,641
Benefits - Government contribution	21,707	26,762
Fringe benefits	14,377	7,710
Furnishings and equipment	1,520	4,239
Office supplies	1,149	1,213
Salaries and wages - overtime	106	-
Miscellaneous	28,688	26,097
Total management	997,535	804,885
Administration:		
Salaries and wages - regular	5,513,219	5,625,356
Pension cost	1,821,987	2,013,289
Annual leave	511,979	558,498
Salaries and wages - overtime	372,918	376,358
Fringe benefits	341,846	307,612
Benefits - Government contribution	290,030	356,739
Repairs and maintenance	174,210	212,665
Salaries and wages - other	82,817	80,856
Operational supplies	38,336	61,109
Office supplies	32,932	32,259
Furnishings and equipment	27,246	105,476
Miscellaneous	228,282	286,765
Total administration	9,435,802	10,016,982
Total management and administration	$ 10,433,337	$ 10,821,867

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
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Details of Operating Expenses, Continued
Years Ended September 30, 2018 and 2017

		2018		2017
Equipment Maintenance:				
Salaries and wages - regular	$	2,603,043	$	2,632,824
Pension cost		894,271		987,194
Repairs and maintenance		772,064		490,325
Operational supplies		644,022		464,580
Salaries and wages - overtime		250,632		247,769
Annual leave		236,165		246,992
Fringe benefits		201,760		185,055
Salaries and wages - other		178,630		175,596
Contractual		142,410		21,535
Benefits - Government contribution		136,273		170,025
Furnishings and equipment		26,513		16,556
Office supplies		1,639		1,993
Total equipment maintenance	$	6,087,422	$	5,640,444
Transportation Services:				
Salaries and wages - regular	$	2,445,631	$	2,822,454
Pension cost		871,047		1,136,812
Salaries and wages - overtime		570,966		528,983
Gas, oil and diesel		315,858		227,716
Annual leave		216,658		261,933
Fringe benefits		190,663		206,386
Salaries and wages - other		161,674		171,170
Benefits - Government contribution		139,961		188,282
Office supplies		7,365		1,052
Operational supplies		1,965		1,427
Furnishings and equipment		1,005		3,371
Total transportation services	$	4,922,793	$	5,549,586

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PORT AUTHORITY OF GUAM
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Details of Operating Expenses, Continued
Years Ended September 30, 2018 and 2017

		2018		2017
Stevedoring Services:				
Salaries and wages - regular	$	2,066,063	$	2,245,817
Pension cost		705,656		833,001
Salaries and wages - overtime		224,221		239,889
Annual leave		178,379		202,242
Fringe benefits		162,786		155,365
Salaries and wages - other		149,975		150,443
Benefits - Government contribution		120,308		155,265
Operational supplies		20,448		8,967
Office supplies		1,394		1,800
Total stevedoring services	$	3,629,230	$	3,992,789
Facility Maintenance:				
Salaries and wages - regular	$	1,036,462	$	1,037,659
Pension cost		340,388		382,620
Operational supplies		172,646		226,811
Fringe benefits		114,099		83,419
Annual leave		86,508		92,201
Salaries and wages - overtime		72,212		59,412
Benefits - Government contribution		58,498		70,582
Repairs and maintenance		19,900		-
Salaries and wages - other		14,499		15,389
Furnishings and equipment		14,277		13,708
Office supplies		354		645
Miscellaneous		14,945		4,501
Total facility maintenance	$	1,944,788	$	1,986,947

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PORT AUTHORITY OF GUAM
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Details of Operating Expenses, Continued
Years Ended September 30, 2018 and 2017

		2018		2017
Terminal Services:				
Salaries and wages - regular	$	1,433,556	$	1,562,184
Pension cost		493,100		593,414
Salaries and wages - overtime		237,805		232,564
Annual leave		122,132		138,128
Fringe benefits		106,983		114,067
Benefits - Government contribution		79,707		106,707
Salaries and wages - other		50,155		53,029
Operational supplies		9,398		1,786
Office supplies		5,119		6,315
Furnishings and equipment		781		524
Total terminal services	$	2,538,736	$	2,808,718
General Expenses:				
Professional services	$	979,570	$	1,182,628
Legal counsel		928,587		991,926
Managers’ fee		889,905		834,248
Maintenance		543,411		187,257
Waste removal		124,789		113,373
Port incentive award		57,253		26,959
Workmen’s compensation injury allowance		34,269		14,752
Audit		30,000		55,000
Inventory adjustment		17,039		22,040
Agency fee		6,854		7,610
Board of Directors expense		4,941		6,261
Claims and damages		500		767
Miscellaneous		292,646		290,789
Total general expenses	$	3,909,764	$	3,733,610

See Accompanying Independent Auditors' Report.

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

Summary of Salaries and Wages
Years Ended September 30, 2018 and 2017

	2018	2017
Salaries and wages - regular	$ 15,591,848	$ 16,427,139
Salaries and wages - overtime	1,728,862	1,684,974
Benefits - Government contribution	846,483	1,074,361
Fringe benefits	1,132,514	1,059,616
Salaries and wages - other	637,750	646,483
	$ 19,937,457	$ 20,892,573

See Accompanying Independent Auditors' Report.

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

Employees by Department
Years Ended September 30, 2018 and 2017

	2018	2017
Department:		
Management and administration	116	110
Equipment maintenance	55	53
Transportation services	62	57
Stevedoring services	54	62
Facility maintenance	27	30
Terminal services	37	35
	351	347

See Accompanying Independent Auditors' Report.