Financial Statements and Other Financial Information

Port Authority of Guam

(A Component Unit of the Government of Guam)

Years ended September 30, 2010 and 2009
with Report of Independent Auditors

Ernst & Young

ERNST & YOUNG

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(A Component Unit of the Government of Guam)

Financial Statements and
Other Financial Information

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Contents

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Report of Independent Auditors

Board of Directors
Port Authority of Guam

We have audited the accompanying statements of net assets of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2010 on our consideration of the Port Authority of Guam's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The supplementary information contained in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

December 30, 2010

Our discussion and analysis of the Port Authority of Guam's (the Port, PAG or the Authority) financial performance provides an overview of the Port's financial activities for the fiscal year ended September 30, 2010, with selected comparative information for the year ended September 30, 2009. Please read it in conjunction with PAG's financial statements and notes to the financial statements.

ABOUT THE AUTHORITY

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

The Port 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 Port facilities were designed in the 1960s and put into service in 1969. Over the last forty years, no major capital improvements have been implemented. This is in contrast to the situation at most modern mainland ports which have undergone two or more cycles of technology and maintenance improvements during this same period of time. This situation exists primarily due to a long history of limited funding to support maintenance, repair, and capital projects at the Port. As a result, most of the Port's assets are in a critical state of disrepair and are out of compliance with current codes and standards.

MISSION STATEMENT

The Port Authority of Guam is dedicated to providing full services to ocean vessels in support of loading and unloading cargo for Guam and Micronesia. 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 and efficient 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 Port Authority dedicates all of its profits to the upgrading of equipment and facilities and the continued growth of the island's seaport.

FINANCIAL HIGHLIGHTS

- Operating revenues for the Port were $36.6 million, a gain of 20% or $6.0 million as compared to Fiscal Year 2009.
- The Port handled almost 98,000 containers in Fiscal Year 2010, a 4% growth from Fiscal Year 2009 total of 94,000 containers.
- The Port's net assets increased by $7.1 million for fiscal year ended September 30, 2010.
- The assets of the Port exceeded its liabilities by $66.7 million in fiscal year 2010. Of this amount, $61.4 million is invested in capital assets and $5.3 million is unrestricted.
- The Port's total assets increased $7.3 million and total liabilities increased $230 thousand during fiscal year ended September 30, 2010.
- Since Fiscal Year 2003, the Port's finances have continuously showed an increase in net assets for 8 straight years.
- The Port's operating income improved by 13%, from $1.97 million in Fiscal Year 2009 to $2.23 million in Fiscal Year 2010.

PORT MODERNIZATION PROGRAM

The Port Modernization Program, as authorized by the Guam Legislature under Public Law 30-100, spans a 30-year planning horizon and is valued at a little more than $260 Million. Phase I-A and Phase I-B of the program should be accomplished over the next 5 years and are focused on critical maintenance and repairs of waterfront facilities and the dredging and uplands expansion needed to handle near-term cargo demands of the military buildup. Phase II of the program will occur 30 years into the future and focuses on the expansion needed to address the cargo demands of the long-term organic growth of Guam and our neighboring islands.

Phase I-A will cost $104.2 Million and involves the $50 Million appropriation from the military, which was transferred to the Port of Guam Improvement Enterprise Fund (PGIEF), combined with $54.5 Million provided by the Port after it acquires loans from the U.S. Department of Agriculture.

PORT MODERNIZATION PROGRAM, continued

The PGIEF will be administered by the U.S. Maritime Administration (MARAD). Phase I-A includes reconfiguration and expansion of the cargo terminals, creation of a new gate complex, reconfiguration and expansion of selected buildings, upgraded utilities and security features, and state-of-the-art terminal and gate operating systems.

Although funding for the Phase I-B project has yet to be identified, it will include wharf repairs, dredging, cranes, and additional security equipment.

Overall, the modernization plan will increase demand capacity to ensure that Guam's only commercial port is developed and managed to adequately accommodate and capitalize on the rapid expansion expected to occur over the next decade.

PUBLIC UTILITIES COMMISSION

As the Port moves toward the implementation of its Port Modernization Master Plan, the Port will need adequate revenues to fund an estimated $260 million capital improvement undertaking. Public Law 30-52 authorized the inclusion of the Jose D. Leon Guerrero Commercial Port within the regulatory oversight supervision authority of the Public Utilities Commission (PUC). The establishment or modification of rates and other charges for the Port shall require the approval of the PUC and this process will limit the required approval for rate increases.

In October 2009, the PAG requested that the Guam PUC to "conduct an investigation into the rules and tariffs of the Port." The PAG interim tariff request was driven by several business factors:

- The current PAG tariff was established since 1993.
- Additional funds are required to modernize port facilities which have not had major improvements since 1969.
- Maintenance and capital improvement expenses increased by 109% from 2001 to 2008.
- PAG will not be able to support the cargo throughput requirements for the U.S. military buildup if the facilities are not improved.

PAG requested to the Guam PUC the following rate changes: a 3.4% increase on the terminal tariff for cargo handling charges for 2010, tariff increases for bunkering/fuel, wharfage, easement leases, facility maintenance, marina fees and mooring fees. The PUC approved on January 29, 2010 the above rate changes except for the marina fees and mooring fees. The new rates were implemented on February 1, 2010, except for the facility maintenance fee which was implemented on March 1, 2010. The law also requires the Port to submit to PUC the results from a study of existing rates, charges and cost of services no later than December 31, 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental Accounting policy, practice and procedures fall under the auspices of the Governmental Accounting Standards Board (GASB). The Port's financial transactions and subsequent statements are prepared according to GASB 34 reporting model, as mandated by GASB 34. The Port is considered a proprietary form of government and its financial transactions are recorded in a single Enterprise Fund.

The Port engages only in business type activities, that is , activities are financed either in whole or in part by charges to entities that are external to the operation of the Port and for which charges are for goods or services rendered. As a result, PAG's basic financial statements include the statements of net assets and the related statements of revenues, expenses and changes in net assets and cash flows. These basic financial statements are designed to provide readers with a broad overview of the Port's finances in a manner similar to that in the private sector.

Statements of Net Assets

The statements of net assets presents the financial position of the Port at the end of the fiscal year. The statement includes all of the Port Authority's assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Port's creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It provides the basis for computing rate of return, evaluating the capital structure of the Port and assessing the Port's liquidity and financial flexibility. Net Assets, the difference between total assets and total liabilities, is an indicator of the current fiscal health of the organization and PAG's financial position over time.

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

Condensed Statements of Net Assets

ASSETS	2010	2009	2008
Current and other assets	$14,299,699	$15,726,063	$17,912,991
Capital assets	61,513,177	52,794,911	48,883,531
Total assets	$75,812,876	$68,520,974	$66,796,522
LIABILITIES AND NET ASSETS			
Current liabilities	$ 7,883,783	$ 7,904,222	$ 8,221,107
Other non-current liabilities	1,248,691	998,456	975,273
Total liabilities	9,132,474	8,902,678	9,196,380
Net assets:			
Invested in capital assets	61,374,710	52,651,764	48,738,344
Unrestricted	5,305,692	6,966,532	8,861,798
Total net assets	66,680,402	59,618,296	57,600,142
Total	$75,812,876	$68,520,974	$66,796,522

Statements of Net Assets, continued

Current and other assets decreased from $15.7 million in Fiscal Year 2009 to $14.3 million in Fiscal Year 2010, a net decrease of $1.4 million or 9%. Cash and cash equivalents decreased by more than $3 million, primarily due to the purchase of several cargo handling equipment in Fiscal Year 2010 totaling to $2.1 million and payments made for the remaining balance owed on the $4 million Gantry Rails and Wharf upgrades project. Accounts Receivable, net, as of September 30, 2010, ended with a total of $6.7 million. This account increased by $1.9 million compared to Fiscal Year 2009 of $4.8 million. The increase of Port revenues in Fiscal Year 2010 resulted in an increase in the balances of the Port's aging receivables as follows: (a) 71% is in the current and less than 60 days status, (b) 5% is between over 60 days to less than 120 days and the (c) remainder is over the 120 days status.

The Port's total capital assets increased by $8.7 million or 17%, from $52.8 million in Fiscal Year 2009 to $61.5 million in Fiscal Year 2010. A total of $6.2 million was spent on the Port's Master Plan projects, $2.1 million was for the purchase of two brand new top lifters and 10 brand new tractors, and $3.5 million were on fixed assets funded through internal funds and federal grants.

The sum of the Port's total assets for Fiscal Year 2010 is $75.8 million, a net increase of $7.3 million or 11% compared to Fiscal Year 2009 total assets of $68.5 million. The Fiscal Year 2009 total assets ended up with a cumulative gain of 3% or $1.7 million as compared to Fiscal Year 2008, primarily due to the increase in capital assets of $3.9 million and decrease in current and other assets of $2.2 million.

The total liabilities in Fiscal Year 2010 are up by 3% or $230 thousand, from $8.9 million in Fiscal Year 2009 to $9.1 million in Fiscal Year 2010. This is largely due to accrued liabilities and unpaid invoices to vendors and government agencies as of September 30, 2010. In comparison with Fiscal Year 2008, the Fiscal Year 2009 total liabilities reflected a decrease of $294 thousand or 3%.

Due to the results of the Port's financial operations in Fiscal Year 2010, the total net assets ended with a total of $66.7 million. This is the summation of the difference between total assets of $75.8 million and total liabilities of $9.1 million. The Fiscal Year 2010 net asset resulted in a gain of $7 million or 12% from Fiscal Year 2009 total net asset of $59.6 million. The net assets in Fiscal Year 2009 increased by $2 million as compared to Fiscal Year 2008 total net assets of $57.6 million.

Statements of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets present the change in the Port's net assets during the current fiscal year as a result of operations. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g. uncollected receivables). This statement measures the success of the Port's operations and can be used to determine whether the overall fiscal condition of the Port has improved or worsened during the year. Following is a summary of the statements of revenues, expenses, and changes in net assets as of September 30:

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2010	2009	2008
Operating revenues	$36,556,226	$30,521,301	$30,257,489
Operating expenses	(31,517,598)	(25,812,245)	(25,946,001)
Operating income before depreciation	5,038,628	4,709,056	4,311,488
Depreciation	(2,808,292)	(2,742,616)	(2,640,375)
Operating income	2,230,336	1,966,440	1,671,113
Nonoperating expenses, net	(1,244,967)	(327,554)	(754,653)
Earnings before capital contributions	985,369	1,638,886	916,460
Capital Contributions-US Gov't Grants	6,076,737	379,268	337,463
Increase in net assets	7,062,106	2,018,154	1,253,923
Net assets at beginning of year	59,618,296	57,600,142	56,346,219
Net assets at end of year	$66,680,402	$59,618,296	$57,600,142

Revenues

The total operating revenues in Fiscal Year 2010 was $36.6 million, which is 20% higher than Fiscal Year 2009 and the non-operating revenues which consist of U.S. Government grants, insurance settlements and interest income, increased by almost $5 million compared to Fiscal Year 2009. The following are the explanation on the variances of the various revenue classifications:

- Cargo throughput charges increased from $21 million in Fiscal Year 2009 to $24.3 million in Fiscal Year 2010 or an increase of 16%. The increase of 4% in the number of containers handled, from 94,000 containers in Fiscal Year 2009 to 98,000 containers in Fiscal Year 2010, plus the approved increases in the cargo charges by the Public Utilities Commission in February 2010 are the primary reasons of the positive variance.

Statements of Revenues, Expenses and Changes in Net Assets, continued

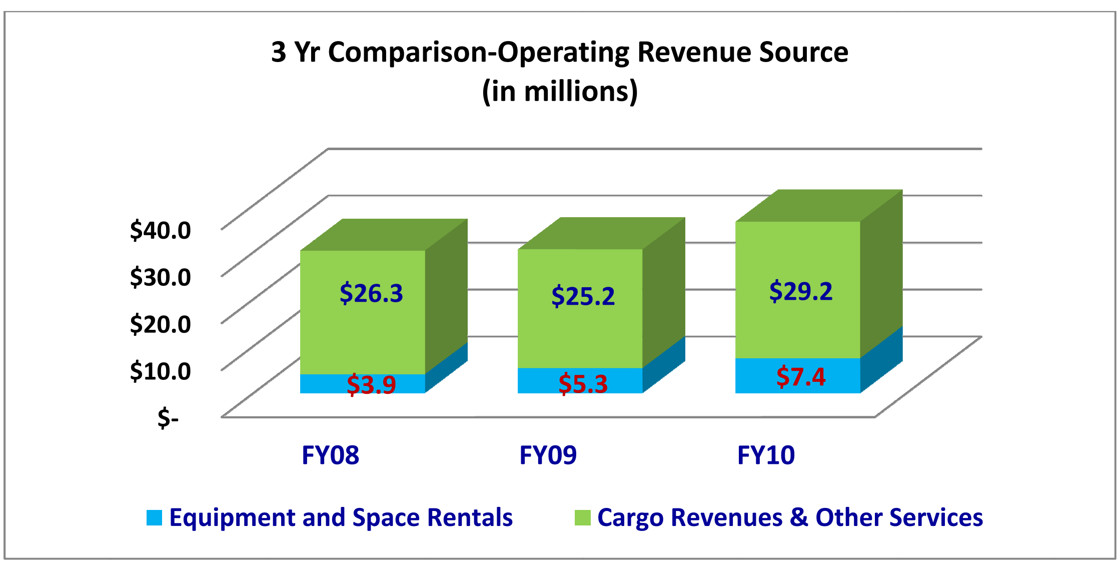
- The 9% increase of Wharfage charges from $3.8 million in Fiscal Year 2009 to $4.1 million in Fiscal Year 2010 are due to the same reason mentioned in the Cargo Throughput charges.

- Equipment and space rentals increased by 40%, from $5.3 million in Fiscal Year 2009 to $7.4 million in Fiscal Year 2010. The cause of the increases were due to the full year implementation of new space lease rates approved through Public Law 30-19 and PUC approved rate changes on fuel throughput fees and other facility charges.

- Special services and other revenues ended with a 54% increase in Fiscal Year 2010 mostly due to reversal of accrued expenses booked in Fiscal Year 2009.

- Federal grants for operating and capital contribution grew from $900 thousand in Fiscal Year 2009 to $6.1 million in Fiscal Year 2010. Majority of these federal grants were intended for the capital improvement projects related to the Port Modernization Plan implementation, such as preliminary engineering and design activities, site assessment, truck gates and terminal operating system specifications, security and communications design and other related activities to meet compliance requirements for the Modernization Plan projects. The Port also purchased 3 Portable Fire pumps amounting to $520 thousand funded under Department of Homeland Security's Port Security Grant Program.

- The remaining non-operating revenues were from the recognition of insurance settlement revenues for the completion of the gantry rail project totaling to $1.6 million and interest income of $170 thousand.



Statements of Revenues, Expenses and Changes in Net Assets, continued

Expenses
In Fiscal Year 2010, the total operating expenses was $33.6 million and non-operating expenses was $3.1 million. Operating expenses have increased by $5.4 million and non-operating expenses have decreased by $203 thousand compared to Fiscal Year 2009. The variances were due to the following explanations:

- Salaries and benefits have increased by over $2 million due to the implementation of the Port Classification and Compensation Study authorized through Public Law 30-43.

- Professional Services have increased by $800 thousand for services related to legal counsel, PUC consultant fees, Master Plan implementation, tariff study, appraisal studies and labor relations.

- Utilities have increased by $200 thousand, primarily due to water charges that may be caused by leakages. The Port is working with the Guam Waterworks Authority to address this continuing issue.

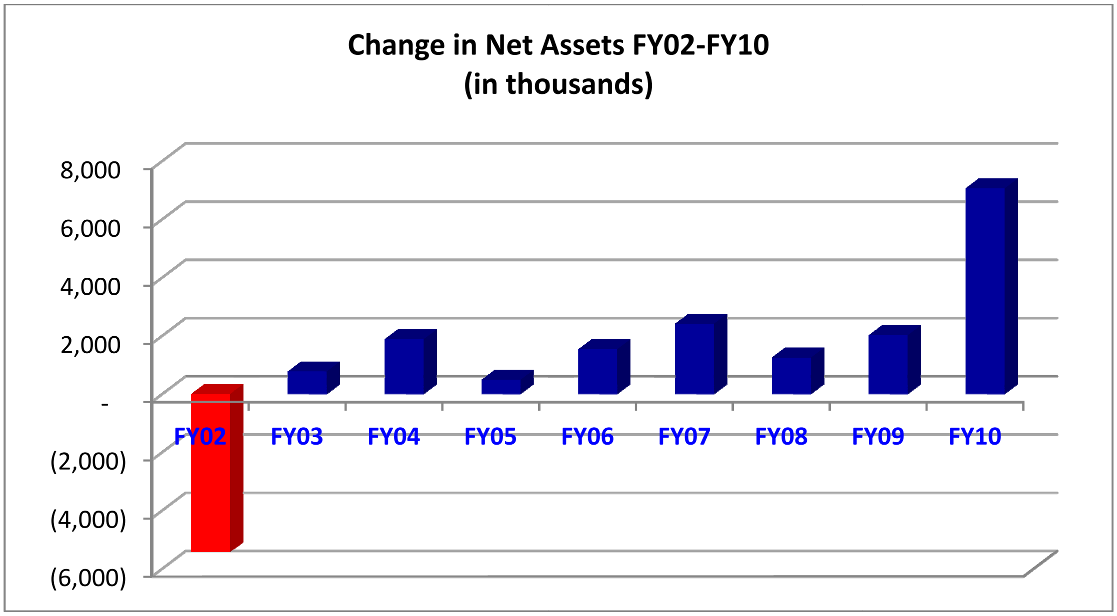
- Operational Supplies plus Repairs and Maintenance expenses have increased by $1.5 million compared to Fiscal Year 2009 due to the high cost required in maintaining the aging cargo handling equipment of the Port.

- Retirees COLA payments increased by $1 million due to the assessment made to the Port for three prior fiscal years' charges.

Analysis of Overall Financial Position and Results of Operations

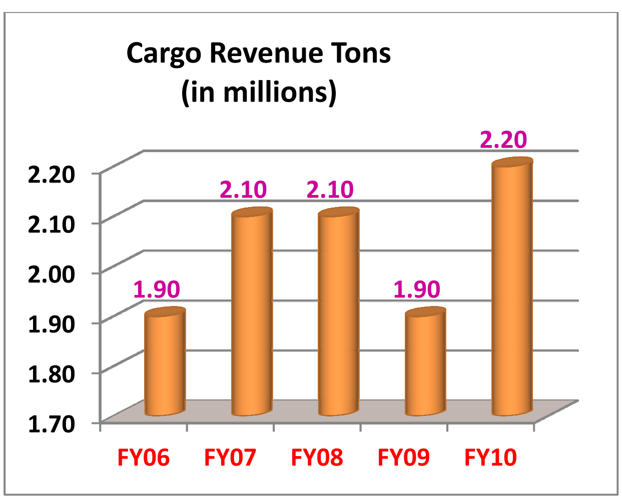
One of the most important questions asked about the Port Authority's financial statements is "Is the Port Authority as a whole, better off or worse off as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses and changes in net assets report information about the Port's activities in a way that will help answer this question. One can think of the Port's net assets- the difference between assets and liabilities- as one way to measure financial health and financial position. Over time, increases and decreases in the Port's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, world events, regulation and new or changed government legislation.

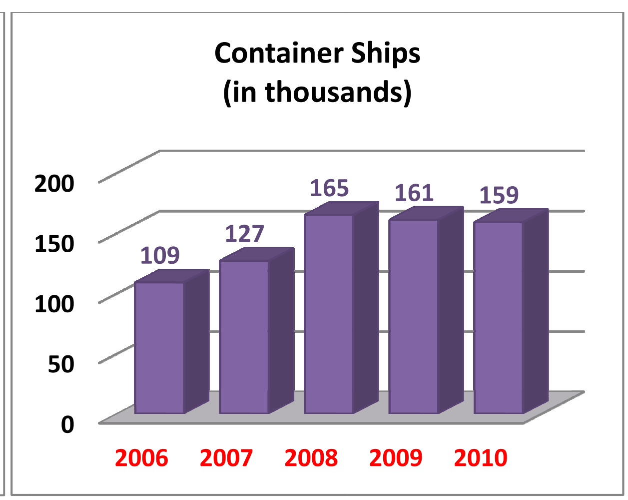
Analysis of Overall Financial Position and Results of Operations, continued



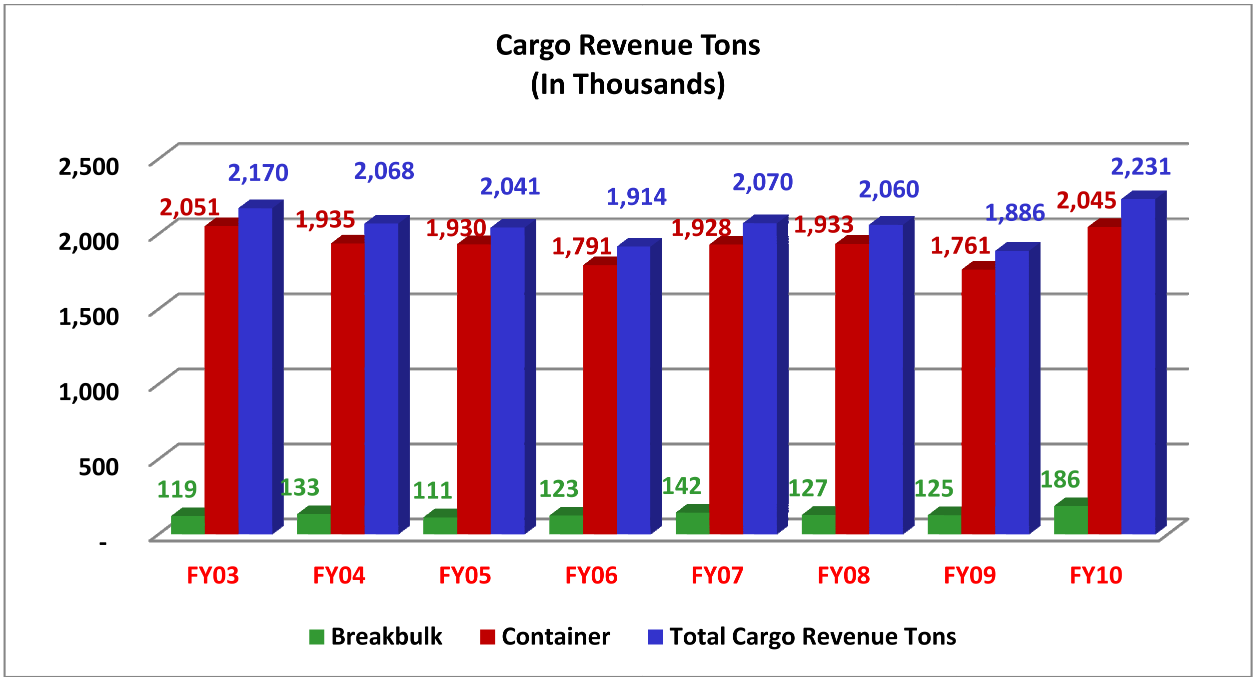
During the years ended September 30, 2010, 2009 and 2008, the Port's net asset increased by $7.1 million, $2.0 million and $1.3 million, respectively. The Fiscal Year 2010 change in net assets of $7.1 million is a gain of 250% compared to Fiscal Year 2009. The Port has recorded a positive increase in net assets for 8 straight years since Fiscal Year 2003.

<u>Vessel and Cargo Statistics</u>





Vessel and Cargo Statistics, continued



In Fiscal Year 2010, the number of container ships remains to be steady at almost 160 vessels. The total number of containers handled in Fiscal Year 2010 has improved by 4%, from 94 thousand containers in Fiscal Year 2009 to almost 98 thousand in Fiscal Year 2010. The decrease in number of containers for Fiscal Year 2009 compared to Fiscal Year 2008 was primarily due to the worldwide economic downturn. The number of revenue tons handled for all cargos increased from 1.9 million revenue tons in Fiscal Year 2009 to 2.2 million revenue tons in Fiscal Year 2010. The breakdown of the increase is a 49% gain on non-containerized or breakbulk cargos and a 16% gain on revenue tons for container cargos.

CAPITAL ASSETS

The Port's capital assets as of September 30, 2010 amounted to $61.5 million (net of accumulated depreciation), which is a gain of $8.7 million as compared to Fiscal Year 2009 total capital assets. Major capital asset events during the current fiscal year included the following:

- Expenditure of $1.6 million on the completed gantry rail replacement and wharf upgrade project.
- Acquisition of two new top lifters and ten tractors totaling $2.1 million.
- Purchase of three brand new portable fire pumps with trailers in the amount of $520 thousand.
- Acquisition of 40 ton AC unit, costing $114 thousand, for the Administration building.

CAPITAL ASSETS, continued

- Acquisition of furnishing equipment, vehicles, crane equipment, building renovations and computers totaling to $280 thousand.
- Capital expenditures of $800 thousand on several lifting equipment refurbishment costs.
- Expenditures of $600 thousand for the electrical upgrade of the Port compound.
- Other investments in operational and administration equipment totaling $178 thousand.
- Building and yard improvements amounting to $200 thousand.

FISCAL YEAR 2011 OUTLOOK

The following are the courses of action that the Port aims to accomplish or complete in FY 2011:

Procurement Delegation

The Port's procurement delegation is critical to the operations' efficiency and the modernization projects identified in the Master Plan. The Port will work on obtaining the delegation approval from the Chief Procurement Officer so it may purchase materials, supplies and services that are vital to the daily operations of the Port and also the Modernization Program.

Performance Management Contract

The Port issued a Request for Proposal (RFP) for a Performance Management Contract (PMC) in March 2010. It was estimated that the procurement process will conclude by September 2010. The RFP for the PMC was placed on stay procurement status as a result of an appeal and is currently under litigation.

The PMC will provide management expertise, training to PAG staff and potential investments in elevating the Port operations to world class standards. They will also participate in the modernization construction projects that the Port will undertake. The PMC will help to improve efficiencies and continue to maximize operations while the Master Plan construction is on-going. The Port plans to pursue the implementation of this service in Fiscal Year 2011.

Port Security Grant Program

In July 2010, the Port of Guam received $2.3 million for the Port Security Grant Program (PSGP). The PSGP provides funding to port areas for the protection of critical port infrastructure from terrorism. This funding helps ports enhance their risk management capabilities, maritime domain awareness, training and exercises, efforts supporting implementation of the Transportation Worker Identification Credential (TWIC), and capabilities to prevent, detect, respond to, and recover from attacks involving improvised explosive devices and other non-conventional weapons.

Purchase of Gantry Crane

The Port has been unsuccessful for several years in its attempt to purchase its own gantry cranes. Public Law 30-100 requires the Port to acquire gantry cranes by 2012. The Port is looking at the following options: lease-to-own refurbished cranes, lease-to-own new cranes, buy used cranes or buy brand new cranes.

Marina Renovations

The Port Authority of Guam, in April of 2009, was given an Authorization to Proceed by the Department of Interior which is providing the $1.8 million in federal funding, for the renovations and site improvements. The renovations will include the repair of 1,660 linear feet by Phases, of deteriorated steel sheet pile bulkhead to prevent further deterioration of the existing bulkhead and erosion of the fill behind the bulkhead. Other improvements at the Marina will include the placement of a concrete slab on the north side of the entrance channel, removal and replacement of steel ladders along the face of the piers, removal and replacement of steel pipe railings on the piers and stabilizing the surrounding areas. This will be the second time major renovations have occurred at the Gregorio D. Perez Marina in Hagåtña.

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.

For additional information about this report, please contact Mr. Jose Guevara, Financial Affairs Controller, 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 Assets

	September 30, 2010	September 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 7,574,987	$10,914,337
Accounts receivable, net of allowance for doubtful accounts of $1,863,477 in 2010 and $1,121,861 in 2009	6,724,712	4,811,726
Total current assets	14,299,699	15,726,063
Replacement parts inventories, net of allowance for obsolescence of $126,636 in 2010 and $122,619 in 2009	138,467	143,147
Property, plant and equipment, net	61,374,710	52,651,764
	$75,812,876	$68,520,974
Liabilities and Net Assets		
Current liabilities:		
Accounts payable, trade and others	$ 5,790,316	$ 4,293,604
Security deposits and other payables	444,917	404,215
Accrued earthquake and typhoon damages	---	1,596,708
Accrued payroll and withholdings	508,722	621,833
Current portion of accrued annual leave	870,427	774,191
Deferred revenue	269,401	213,671
Total current liabilities	7,883,783	7,904,222
Accrued annual leave, less current portion	359,274	288,203
Accrued sick leave	889,417	710,253
Total liabilities	9,132,474	8,902,678
Net assets:		
Invested in capital assets	61,374,710	52,651,764
Unrestricted	5,305,692	6,966,532
Total net assets	66,680,402	59,618,296
	$75,812,876	$68,520,974

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Assets

	Year ended September 30, 2010	Year ended September 30, 2009
Operating revenues:		
Cargo throughput charges	$24,281,472	$20,965,883
Equipment and space rental	7,364,885	5,269,342
Wharfage charges	4,130,568	3,780,904
Special services	382,023	418,700
Other operating income	397,278	86,472
	36,556,226	30,521,301
Less bad debts	(741,617)	(414,943)
	35,814,609	30,106,358
Operating expenses:		
Management and administration	7,936,177	6,546,353
Equipment maintenance	5,753,311	4,696,695
Transportation services	3,732,562	3,296,598
Depreciation	2,808,292	2,742,616
Stevedoring services	2,722,734	2,133,159
Utilities	2,424,599	2,233,347
Insurance	2,380,452	2,358,040
Terminal services	1,557,797	1,188,318
Facility maintenance	1,343,406	1,299,445
General expenses	2,924,943	1,645,347
Total operating expenses	33,584,273	28,139,918
Earnings from operations	2,230,336	1,966,440
Nonoperating (expenses) revenues:		
U.S. Government operating grants	12,892	552,105
Loss from disposal of property, plant and equipment and other expenses	(22,862)	(1,639,948)
Interest income, net	170,307	220,030
Insurance settlement	1,647,269	2,178,886
COLA/supplemental annuities	(3,052,573)	(1,638,627)
Total nonoperating expenses, net	(1,244,967)	(327,554)
Earnings before capital contributions	985,369	1,638,886
Capital contributions – grants from the U.S. Government	6,076,737	379,268
Increase in net assets	7,062,106	2,018,154
Net assets at beginning of year	59,618,296	57,600,142
Net assets at end of year	$66,680,402	$59,618,296

See accompanying notes to financial statements.

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

Statements of Cash Flows

	Year ended September 30, 2010	2009
Cash flows from operating activities:		
Cash received from customers	$33,998,055	$29,514,962
Cash payments to suppliers for goods and services	(10,565,005)	(7,786,407)
Cash payments to employees for services and benefits	(21,528,797)	(17,640,858)
Net cash provided by operating activities	1,904,253	4,087,697
Cash flows from investing activity - interest received	170,307	220,030
Cash flows from capital and related financing activities:		
Capital grants received	6,076,737	379,268
Purchase of property, plant and equipment	(11,554,100)	(8,295,984)
Net cash used in capital and related financing activities	(5,477,363)	(7,916,716)
Cash flows from non-capital related financing activities:		
Operating grants received	12,892	552,105
Insurance settlement received	50,561	---
Cash provided by non-capital and related financing activities	63,453	552,105
Net decrease in cash and cash equivalents	(3,339,350)	(3,056,884)
Cash and cash equivalents at beginning of year	10,914,337	13,971,221
Cash and cash equivalents at end of year	$ 7,574,987	$10,914,337

See accompanying notes to financial statements.

Statements of Cash Flows, continued

	Year ended September 30, 2010	2009
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	$2,230,336	$1,966,440
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	2,808,292	2,742,616
Payments for COLA/supplemental annuities	(3,052,573)	(1,638,627)
Bad debts	741,617	414,943
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,654,603)	(1,284,899)
Replacement parts inventories, net	4,680	2,040
Accounts payable, trade and others	1,496,712	1,651,799
Security deposits and other payables	40,702	241,663
Accrued payroll and withholdings	(113,111)	(172,418)
Accrued annual leave	167,307	22,268
Deferred revenue	55,730	36,897
Accrued sick leave	179,164	104,975
Net cash provided by operating activities	$1,904,253	$4,087,697

Non-Cash Financing Activity:

During 2009, the Authority wrote-off construction work-in-progress totaling $1,545,210, shown as a component of loss from disposal of property, plant and equipment in the accompanying 2009 statement of revenues, expenses and changes in net assets, and pertains to consulting cost of the deep draft wharf project.

1. Organization and Summary of Significant Accounting Policies

Organization

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

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

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

Basis of Accounting

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

1. Organization and Summary of Significant Accounting Policies, continued

Basis of Accounting, continued

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

Net Assets

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

Invested in capital assets, net of related debt:
Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted:
Nonexpendable - Net assets subject to externally imposed stipulations that require the Authority to maintain them permanently.

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

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

The Authority does not have restricted net assets at September 30, 2010 and 2009.

1. Organization and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

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

Accounts Receivable

Substantially all of the Authority's trade receivables as of September 30, 2010 and 2009 are due from international steamship lines/agents which are located or operating in 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 90 days from the date of billing. As of September 30, 2010 and 2009, receivables that are more than ninety days past due totaled approximately $2,084,000 and $710,000, respectively. The Authority accrues finance charges on past due receivables. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Property, Plant and Equipment

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

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.

1. Organization and Summary of Significant Accounting Policies, continued

Compensated Absences

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

In accordance with Public Law No. 27-5 and Public Law No. 28-68, employee vacation rates are credited at either 104, 156 or 208 hours per year, depending upon their length of service.

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 amended subsection (c) of 4 Guam Code Annotated § 4109. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over the excess shall be lost.

Risk Management

The Authority has commercial insurance coverage for directors' and officers' liability, comprehensive liability, employee dishonesty and forgery, money and securities loss, and automobile injury and property damage. Worker's compensation is managed through the local Department of Labor. The Authority also has commercial property insurance coverage for 100% of the total net book value of property, plant and equipment, subject to deductibles. The Authority incurred no losses in excess of insurance coverage during the years ended September 30, 2010 and 2009.

1. Organization and Summary of Significant Accounting Policies, continued

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

In March 2009, GASB issued Statement No. 55, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*," effective upon its issuance. The statement incorporates the hierarchy of generally accepted accounting principles for state and local governments into GASB's authoritative literature. The adoption of this statement did not have a material effect on the Authority's financial statements.

In March 2009, GASB issued Statement No. 56, "*Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*," effective upon its issuance. The statement incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature – related party transactions, going concern considerations, and subsequent events. The adoption of this statement did not have a material effect on the Authority's financial statements.

In June 2010, GASB issued Statement No. 59, *"Financial Instruments Omnibus,"* effective for periods beginning after June 15, 2010. The statement modifies financial reporting and disclosure requirements of certain financial instruments and external investment pool. The adoption of this statement did not have a material effect on the Authority's financial statement.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements and supplementary schedules for comparative purposes. Such reclassifications have no effect on previously reported increase in net assets.

Subsequent Events

The Authority has evaluated subsequent events through December 30, 2010, which is the date the financial statements were available to be issued.

2. Property, Plant and Equipment

A schedule of the Authority's property, plant and equipment as of September 30, 2010 and 2009 is as follows:

	Beginning Balance October 1, 2009	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2010
Depreciable assets:				
Buildings	$67,989,596	$ 2,646,030	$(133,005)	$70,502,621
Equipment	22,080,858	2,966,898	(223,160)	24,824,596
	90,070,454	5,612,928	(356,165)	95,327,217
Less accumulated depreciation	(49,656,294)	(2,808,292)	367,516	(52,097,070)
	40,414,160	2,804,636	11,351	43,230,147
Non-depreciable assets:				
Land	3,563,000	---	---	3,563,000
Construction work-in-progress	8,674,604	9,404,934	(3,497,975)	14,581,563
	12,237,604	9,404,934	(3,497,975)	18,144,563
Total	$52,651,764	$12,209,570	$(3,486,624)	$61,374,710

	Beginning Balance October 1, 2008	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2009
Depreciable assets:				
Buildings	$65,664,097	$2,400,598	$(75,099)	$67,989,596
Equipment	20,531,145	2,120,632	(570,919)	22,080,858
	86,195,242	4,521,230	(646,018)	90,070,454
Less accumulated depreciation	(47,486,980)	(2,742,616)	573,302	(49,656,294)
	38,708,262	1,778,614	(72,716)	40,414,160
Non-depreciable assets:				
Land	3,563,000	---	---	3,563,000
Construction work-in-progress	6,467,082	7,697,315	(5,489,793)	8,674,604
	10,030,082	7,697,315	(5,489,793)	12,237,604
Total	$48,738,344	$9,475,929	$(5,562,509)	$52,651,764

3. Deposits and Investments

As of September 30, 2010 and 2009, the carrying amount of the Authority's cash and cash equivalents totaled $7,574,987 and $10,914,337, respectively, all of which were maintained in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2010 and 2009, bank deposits in the amount of $750,000 and $1,000,000, respectively, were FDIC insured. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

4. Earthquake and Typhoon Damages

Accrued typhoon and earthquake damages are recorded net of insurance and FEMA recoveries in the accompanying financial statements. Recorded earthquake and typhoon damages and related recoveries are all estimated amounts. Final damages and insurance and FEMA recoveries may be materially different than estimated.

As of September 30, 2009, the Authority recorded $1,596,708 in estimated remaining costs to repair the Port's facilities arising from an earthquake and typhoons that struck Guam in 2001 and 2002, respectively.

During 2010, the remaining balance of the accrued earthquake and typhoon damages totaling $1,596,708 was reversed and recognized as revenue. This amount is included as a component of insurance settlement in the accompanying 2010 statement of revenues, expenses and changes in net assets.

5. Employees' Retirement Plan

Defined Benefit Plan

Plan Description

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

5. Employees' Retirement Plan, continued

Defined Benefit Plan, continued

Plan Description, continued

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

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

Funding Policy

Plan members of the DB Plan are required to contribute a certain percent of their annual covered salary. The contribution requirements of the plan members and the Authority are established and may be amended by Guam law. For the years ended September 30, 2010 and 2009, the annual actuarially required contribution rates are 28.06% and 29.31%, respectively. The Authority used the statutory contribution rates of 26.04% and 25.20% for the years ended September 30, 2010 and 2009, respectively.

The Authority's contribution to the DB Plan for the years ended September 30, 2010 and 2009 totaled $3,684,834 and $3,150,044, respectively, which equal to the required contributions for that year.

Defined Contribution Retirement System (DCRS)

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

5. Employees' Retirement Plan, continued

Defined Contribution Retirement System (DCRS), continued

Statutory employer contributions into the DCRS plan for the years ended September 30, 2010 and 2009, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The Authority has accrued an estimated liability of $889,417 and $710,253 at September 30, 2010 and 2009, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

Other Post-Employment Benefits

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

6. Long-Term Liabilities

Long-term liabilities of the Authority consist of annual leave and sick leave payable to its employees. Changes in long-term liabilities for the years ended September 30, 2010 and 2009 are as follows:

	Outstanding at September 30, 2009	Additions	Reductions	Outstanding at September 30, 2010	Current	Noncurrent
Accrued annual leave	$1,062,394	$167,307	$ ---	$1,229,701	$870,427	$ 359,274
Accrued sick leave	710,253	179,164	---	889,417	---	889,417
	$1,772,647	$346,471	$ ---	$2,119,118	$870,427	$1,248,691

	Outstanding at September 30, 2008	Additions	Reductions	Outstanding at September 30, 2009	Current	Noncurrent
Accrued annual leave	$ 1,040,126	$ 22,268	$ ---	$1,062,394	$774,191	$288,203
Accrued sick leave	605,278	104,975	---	710,253	---	710,253
	$1,645,404	$127,243	$ ---	$1,772,647	$774,191	$998,456

7. Contingencies

Lawsuits and Claims

As of September 30, 2010 and 2009, the Authority has also been named as a defendant in several lawsuits. Although the Authority intends to vigorously defend itself against all legal actions, a contingency totaling $400,000 has been recorded in the accompanying 2010 financial statements.

Government of Guam General Fund

The Guam Legislature has enacted legislation that requires certain component units, including the Authority, to transfer certain amounts to the Government of Guam general fund on an annual basis. During the year ended September 30, 1994, the Authority transferred $500,000 to the General Fund pursuant to such legislation. In addition, during the year ended September 30, 1997, the Authority transferred $3,500,000 to the Government of Guam Autonomous Agency Infrastructure Collection Fund. The Governor of Guam and the board of directors, for the years ended September 30, 1987 through 1993, 1995, 1996 and 1998 through 2010, have not determined the Authority's allocated portions of these transfers. Accordingly, no liability for this contingency for those years has been recorded in the accompanying financial statements.

7. Contingencies, continued

Federal Award Programs

The Authority has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Audits of Federal program funds are also performed by various federal agencies. If the audits result in cost disallowances, the Authority may be liable. However, management does not believe that resolution of this matter will result in a material liability. Therefore, no liability for any amount, which may ultimately arise from these matters, has been recorded in the accompanying financial statements.

8. Major Customers

The Authority has five major shipping line customers that collectively account for 80.63% and 77.49% of total operating revenues for the years ended September 30, 2010 and 2009, respectively. The Authority has a high concentration of credit risk due to the limited number of entities comprising its customer base.

9. Rental Operations

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

Year ending September 30,	Amount
2011	$ 460,000
2012	276,000
2013	264,000
2014	266,000
2015	31,000
Thereafter	207,000
	$1,504,000

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 $7,364,885 and $5,269,342 respectively, for the years ended September 30, 2010 and 2009, respectively.

10. Supplemental/COLA Benefits

As required by Public Law 27-106, the Authority must pay to the Government of Guam Retirement Fund certain supplemental benefits for retired employees. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered plan benefits. Supplemental benefits include the following for the years ended September 30, 2010 and 2009:

	2010	2009
Supplemental benefits	$1,952,134	$ 453,094
Medical and dental	1,045,627	1,132,252
Life insurance	54,812	53,281
	$3,052,573	$1,638,627

11. Related Party Balances

At September 30, 2010 and 2009, the Authority had deposits of approximately $408,000 and $848,000, respectively, with a bank for which a current member of the Authority's board is a director of the bank.

12. Port Modernization Plan

Overview

The Port Modernization Program, as authorized by the Guam Legislature, spans a 30-year planning horizon and is valued at a little more than $260 million. Phase I-A and Phase I-B of the this program should be accomplished over the next five years and are focused on critical maintenance and repair of waterfront activities and the dredging and uplands expansion needed to handle near-term cargo of the military buildup. Phase II of the program will occur 30 years into the future and focuses on the expansion needed to address the cargo demands of the long-term organic growth of Guam and its neighboring islands.

The Authority is currently on Phase I-A of its Port Modernization Program. Phase I-A includes reconfiguration and expansion of the cargo terminals and selected buildings, creation of a new gate complex, upgrade of utilities and security features and state-of-the-art terminal and gate operating systems. Phase I-A is estimated to cost approximately $104.5 million will be funded by: (a) the $50 million appropriation from the Department of Defense combined with (b) the $54.5 million in loans from the United States Department of Agriculture (USDA).

12. Port Modernization Plan, continued

$50 million appropriation from the Department of Defense

In June 2008, the Authority partnered with the Maritime Administration (MARAD), through a Memorandum of Understanding (MOU), for the "Port of Guam Improvement Enterprise Program" (the Program). MARAD was designated as the lead federal agency assisting the Port in securing funding sources to modernize its facilities and operations. Under the Program, the MARAD's role is to provide federal oversight and coordination of projects under the program, acting as a central procurement organization, leveraging federal, non-federal and private funding sources, and streamlining the environmental review and permitting process. This partnership with MARAD was formalized through U.S. Public Law 110-417, National Defense Authorization Act for 2009. U.S. Public Law 110-417 also established the "Port of Guam Improvement Enterprise Fund" (the Fund) which is a separate account in the Treasury of the United States and will be used to receive funding from federal and non-federal sources to carry out the Program.

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

$54.5 million funding from the USDA

On October 22, 2010, the USDA awarded a $54.5 million appropriation to the Authority, in loans, to complete the funding of the Phase I-A of the Port Modernization Program. This loan consists of the following: (a) $25,000,000 USDA Community Facilities Direct Loan, (b) $25,000,000 USDA Community Facilities Guaranteed Loan with ANZ Guam, Inc. (ANZ) and (c) $4,500,000 USDA Guaranteed Term Loan with ANZ. On the same date, the Authority received the proceeds of the USDA Guaranteed Term Loan with ANZ of $3,500,000 ($1,000,000 unused from the original approved guaranteed term loan) which will be used to purchase several cargo handling equipment. This term loan is secured by the cargo handling equipment, bears interest at 3% above the Federal Home Loan Bank of Seattle 15 year amortizing fixed advance rate at the time of the funding, payable monthly at approximately $30,000 in principal and interest for 15 years.

As of the audit report date, the Authority is working with the USDA and ANZ as to the final terms and conditions of the $25,000,000 direct and $25,000,000 guaranteed loans.

Other Financial Information

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

Details of Operating Expenses

	Year ended September 30, 2010	2009
Management and administration:		
Management:		
Salaries and wages - regular	$ 228,309	$ 214,758
Benefits - Government contribution	62,539	63,954
Annual leave	13,932	14,808
Miscellaneous	8,027	7,006
Fringe benefits	7,336	5,808
Office supplies	1,642	2,111
Salaries and wages - overtime	782	140
Furnishings and equipment	299	---
Total management	322,866	308,585
Administration:		
Salaries and wages - regular	4,533,712	3,933,620
Benefits - Government contribution	1,328,278	1,137,420
Annual leave	400,098	305,161
Miscellaneous	755,780	284,000
Fringe benefits	217,538	188,075
Repairs and maintenance	164,328	133,977
Salaries and wages - overtime	64,214	72,589
Salaries and wages - other	54,656	47,552
Furnishings and equipment	39,969	58,510
Operational supplies	29,641	52,058
Office supplies	25,097	24,806
Total administration	7,613,311	6,237,768
Total management and administration	$7,936,177	$6,546,353
Employees at end of year	124	115

Port Authority of Guam
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Details of Operating Expenses, continued

	Year ended September 30, 2010	2009
Equipment Maintenance:		
Salaries and wages - regular	$1,774,552	$1,499,081
Repairs and maintenance	1,825,777	1,346,875
Operational supplies	893,693	796,109
Benefits - Government contribution	561,633	453,748
Salaries and wages - overtime	234,117	140,296
Salaries and wages - other	193,156	155,493
Annual leave	148,776	111,051
Fringe benefits	96,905	87,113
Contractual	19,474	98,383
Furnishings and equipment	3,985	7,092
Office supplies	1,243	1,454
Total equipment maintenance	$5,753,311	$4,696,695
Employees at end of year	42	48
Transportation Services:		
Salaries and wages - regular	$2,135,770	$1,897,133
Benefits - Government contribution	659,939	582,953
Gas, oil and diesel	414,783	347,728
Annual leave	187,974	154,169
Fringe benefits	144,296	129,493
Salaries and wages - other	109,575	107,434
Salaries and wages - overtime	78,048	75,633
Office supplies	749	833
Operational supplies	706	424
Miscellaneous	695	---
Furnishings and equipment	27	798
Total transportation services	$3,732,562	$3,296,598
Employees at end of year	66	63

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

Details of Operating Expenses, continued

	Year ended September 30, 2010	2009
Stevedoring Services:		
Salaries and wages - regular	$1,714,989	$1,410,374
Benefits - Government contribution	523,167	422,970
Salaries and wages - overtime	139,787	50,014
Annual leave	136,104	104,041
Salaries and wages - other	101,252	67,891
Fringe benefits	85,275	75,734
Operational supplies	21,312	1,383
Office supplies	848	752
Total stevedoring services	$2,722,734	$2,133,159
Employees at end of year	54	51
Facility Maintenance:		
Salaries and wages - regular	$ 800,314	$ 833,005
Benefits - Government contribution	235,949	243,843
Operational supplies	109,910	62,953
Annual leave	75,560	68,054
Fringe benefits	40,143	46,875
Furnishings and equipment	31,202	1,496
Miscellaneous	17,798	---
Salaries and wages - other	17,053	14,714
Salaries and wages - overtime	14,754	27,726
Office supplies	723	329
Contractual	---	450
Total facility maintenance	$1,343,406	$1,299,445
Employees at end of year	25	24

Port Authority of Guam
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Details of Operating Expenses, continued

	Year ended September 30, 2010	Year ended September 30, 2009
Terminal Services:		
Salaries and wages - regular	$ 1,048,377	$ 795,938
Benefits - Government contribution	313,329	245,156
Annual leave	78,302	60,004
Fringe benefits	57,180	35,649
Salaries and wages - overtime	28,780	27,234
Salaries and wages - other	24,988	17,495
Office supplies	6,841	6,634
Operational supplies	---	180
Furnishings and equipment	---	28
Total terminal services	$ 1,557,797	$1,188,318
Employees at end of year	36	33
General Expenses:		
Professional services	$ 797,113	$ 379,642
Legal counsel	731,995	470,537
Shell manager's fee	537,383	340,348
Claims and damages	405,500	57,759
Waste removal	117,187	45,440
Workmen's compensation injury allowance	92,815	46,160
Maintenance	72,401	146,578
Audit	40,992	32,000
Agency fee	38,833	26,710
Port incentive award	38,146	32,857
Miscellaneous	35,104	26,347
Inventory loss	13,874	38,319
Board of Directors expense	3,600	2,650
Total general expenses	$ 2,924,943	$1,645,347

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Summary of Salaries and Wages

	Year ended September 30, 2010	Year ended September 30, 2009
Salaries and wages - regular	$12,236,023	$10,583,909
Benefits - Government contribution	3,684,834	3,150,044
Fringe benefits	648,673	568,747
Salaries and wages - overtime	560,482	391,391
Salaries and wages - other	500,680	410,579
	$17,630,692	$15,104,670
Total employees at end of year	347	334