

*Financial Statements and Other Financial  
Information*

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

*Years ended September 30, 2011 and 2010  
with Report of Independent Auditors*

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

Financial Statements and  
Other Financial Information

Years ended September 30, 2011 and 2010

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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, 2011 and 2010, 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, 2011 and 2010, 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 January 26, 2012 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 13 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*

January 26, 2012

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

Management's Discussion and Analysis

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, 2011 and 2010. 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. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

**ABOUT THE AUTHORITY**

The Port Authority of Guam was established as a public corporation and an 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 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 Port facilities were designed in the 1960s and put into service in 1969. The facilities have remained unchanged since its construction in 1969 with the exception of the repair of F-5 in 1999. 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.

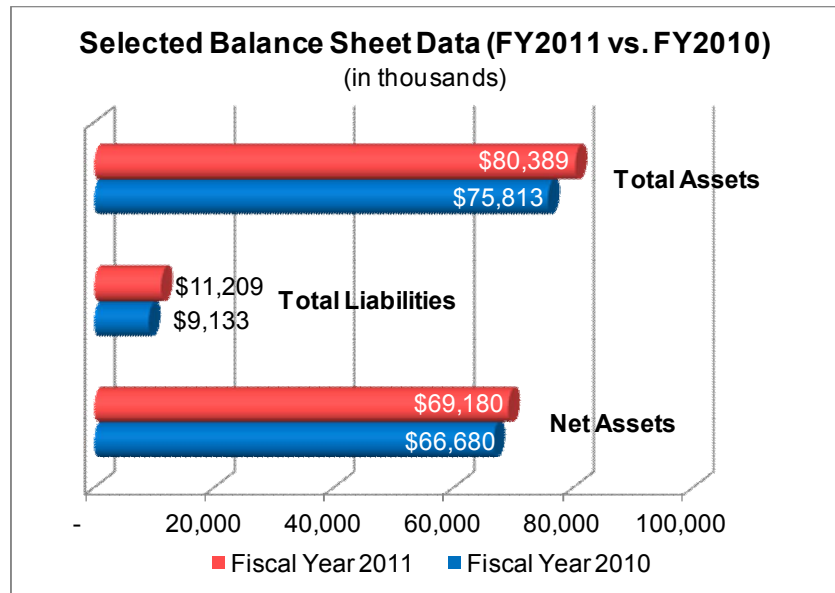
The Authority is dedicated to providing full services to ocean vessels in support of loading and unloading cargo for Guam and Micronesia. The Port Authority of Guam is the main lifeline of consumer goods into the island, and as such, recognizes its responsibility to deliver these goods in a timely and 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 Authority dedicates all of its profits to the upgrading of equipment and facilities and the continued growth of the island's seaport.

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

Management's Discussion and Analysis, continued

**FINANCIAL HIGHLIGHTS**

- The net assets of the Authority at September 30, 2011 were \$69.2 million. Of this amount \$64.4 million is invested in capital assets and \$4.8 million is considered unrestricted.
- The Port's net assets increased by \$2.5 million for the fiscal year ended September 30, 2011.
- The Port's total assets increased by \$4.6 million during the fiscal year ended September 30, 2011. The major components of this change were an increase in current assets by \$1.6 million and increase in capital assets by \$3.0 million.
- The total liabilities increased by \$2.1 million during fiscal year ended September 30, 2011. The major component of this change was due to the long-term debt of \$3.3 million which commenced in the beginning of FY 2011.
- Since Fiscal Year 2003, the Port's finances have consistently showed an increase in net assets for 9 straight years.



**Overview of Financial Statements**

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

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

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

Management's Discussion and Analysis, continued

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

***Financial Analysis***

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

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

**Condensed Statements of Net Assets**  
(In thousands)

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$15,859	\$14,300	\$15,726
Capital assets	<u>64,530</u>	<u>61,513</u>	<u>52,795</u>
Total assets	<u>\$80,389</u>	<u>\$75,813</u>	<u>\$68,521</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Current liabilities	\$ 6,445	\$ 7,884	\$ 7,904
Other non-current liabilities	<u>4,764</u>	<u>1,248</u>	<u>998</u>
Total liabilities	<u>11,209</u>	<u>9,132</u>	<u>8,902</u>
Net assets:			
Invested in capital assets	64,406	61,375	52,652
Unrestricted	<u>4,774</u>	<u>5,306</u>	<u>6,967</u>
Total net assets	<u>69,180</u>	<u>66,681</u>	<u>59,619</u>
Total liabilities and net assets	<u>\$80,389</u>	<u>\$75,813</u>	<u>\$68,521</u>

The Authority's total assets increased by \$4.6 million during the fiscal year ended September 30, 2011, and from \$75.8 million in FY 2010 to \$80.4 million in FY 2011.

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Management's Discussion and Analysis, continued

The increases were primarily due to the increase in the Port's current assets by \$1.6 million or 11% and Property, plant and equipment by \$3 million or 5%. The total liabilities increased by \$2.1 million or 23% from \$9.1 million in FY 2010 to \$11.2 million in FY 2011. This was primarily due to the increase in Port's current and non-current liabilities, which will be explained in the Capital and Debt service portion of this report. The net assets increased by \$2.5 million during the fiscal year ended September 30, 2011. Net assets invested in capital assets net of related debt increased by \$3.0 million and unrestricted net assets decreased by \$0.5 million.

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

**Port Authority of Guam**  
**Changes in Net Assets**  
*(In thousands)*

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Cargo throughput charges	\$23,605	\$24,281	\$20,966
Wharfage charges	3,939	4,131	3,781
Equipment and space rental	7,453	7,365	5,269
Special services	368	382	419
Other operating revenue	<u>485</u>	<u>397</u>	<u>86</u>
Total operating revenues	<u>35,850</u>	<u>36,556</u>	<u>30,521</u>
Operating expenses:			
Operations	9,191	8,014	6,618
Equipment maintenance	5,609	5,753	4,697
Facility maintenance	1,468	1,343	1,299
Management and administration	8,236	7,936	6,546
General expenses	<u>7,416</u>	<u>8,472</u>	<u>6,651</u>
Total operating expenses before depreciation	<u>31,920</u>	<u>31,518</u>	<u>25,811</u>
Operating income before depreciation	3,930	5,038	4,710
Depreciation	<u>3,351</u>	<u>2,808</u>	<u>2,743</u>
Operating income	579	2,230	1,967
Nonoperating expenses, net	2,491	1,245	328
(Loss) earnings before capital contributions	( 1,912)	985	1,639
Capital contributions – US Government Grants	<u>4,413</u>	<u>6,077</u>	<u>379</u>
Increase in net assets	2,501	7,062	2,018
Net assets at beginning of year	<u>66,680</u>	<u>59,618</u>	<u>57,600</u>
Net assets at end of year	<u>\$69,181</u>	<u>\$66,680</u>	<u>\$59,618</u>



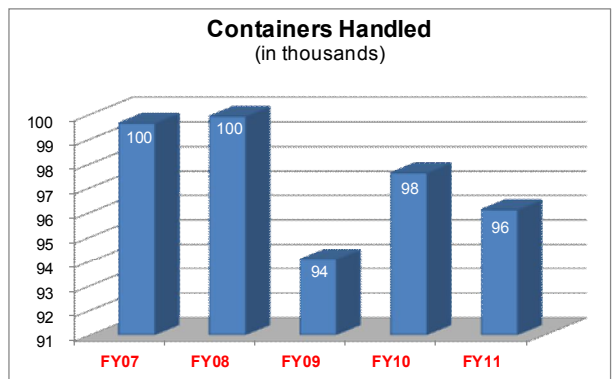
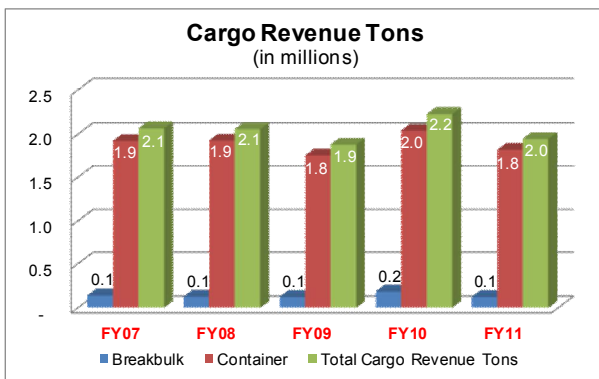
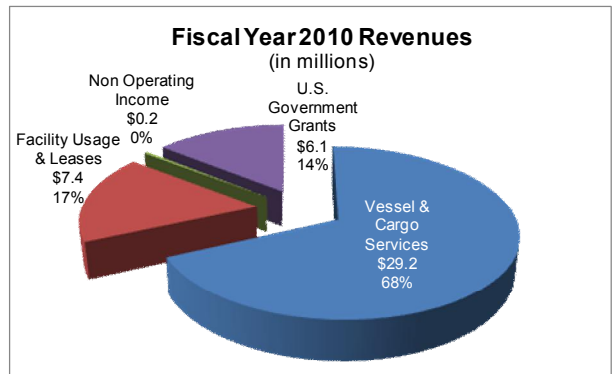
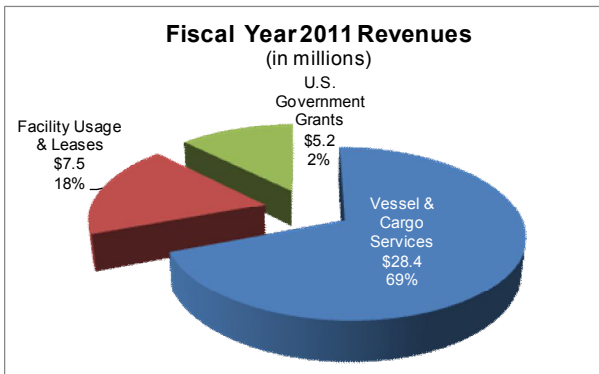
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Management's Discussion and Analysis, continued

**Revenues**

Vessel and cargo services revenues in FY 2011 decreased by 3% or \$.08 million, from \$29.2 million in 2010 to \$28.4 million in the current fiscal year. The major components of the change are decreases in non-containerized or break bulk cargos by almost 40% or \$660 thousand, a \$200 thousand decrease in container throughput revenues and another \$200 thousand decrease in Wharfage revenues. There were no tariff increases in FY 2011. The total number of containers decreased by 2 thousand or 2%, from 98 thousand containers in FY 2010 to 96 thousand containers in FY 2011. Facility usage and leases increased by 1% or \$90 thousand, from \$7.36 million in FY 2010 to \$7.45 million in FY 2011. This is primarily due to the increase in the leases of Mobil which was retroactive since March of 2010. The amount from the prior year assessment was \$157 thousand. The federal contributions in FY 2011 decreased by \$0.9 million, from \$6.1 million in FY 2010 to \$5.2 million in FY2011.

Vessel and cargo services revenues in FY 2010 increased by 16% or \$3.9 million compared to FY 2009 primarily due to increase in container volumes by 4 percent and 3.4 percent increase in tariff rates in January of 2010. Facility usage and leases 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.



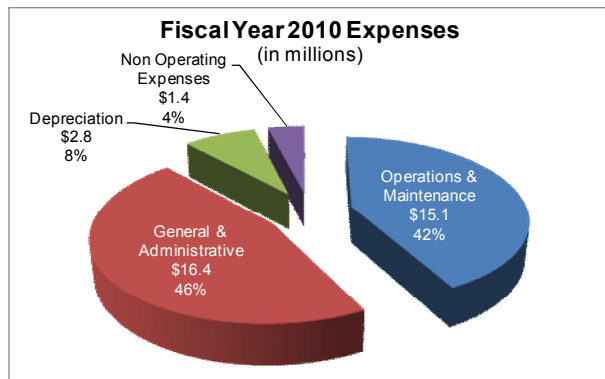
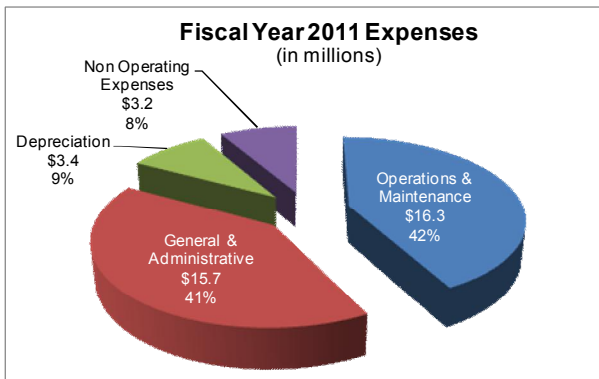
Port Authority of Guam  
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Management’s Discussion and Analysis, continued

**Expenses**

In FY 2011, the Operations and Maintenance expenses of the Port increased by \$1.2 million or 7% due to increases in the Salaries and Benefits caused by annual employee increments, increase in Fuel expenses by \$125 thousand and new employees hired in Operations and Facility Maintenance divisions. General and administrative expenses in FY 2011 decreased by 5% or \$755 thousand primarily due to decreases in Insurance and Utility cost totaling to \$750 thousand. Management and Administration expenses increased by 4% or \$300 thousand due to salary and benefits annual increases and new employees hired in FY 2011. Depreciation expenses increased by 19% or \$543 thousand due to the reclassification of completed Construction in progress projects on the Port’s cargo handling equipments and purchase of new assets in FY 2011. The operating expenses in FY 2011 increased by 3% or \$946 thousand, from \$34.3 million in FY 2010 to \$35.3 million in FY 2011.

In 2010, the Port’s operating expenses increased by \$5.7 million or 20% compared to FY 2009, from \$28.6 million in 2009 to \$34.3 million in 2010. The major components of the change were increases in employees salary and benefits due to the implementation of the Port Classification and Compensation Study authorized through Public Law 30-43, increase in professional Services by \$800 thousand for services related to legal counsel, PUC consultant fees, Master Plan implementation, tariff study, appraisal studies and labor relations, operational supplies plus repairs and maintenance expenses have increased by \$1.5 million compared to Fiscal Year 2010 due to the high cost required in maintaining the aging cargo handling equipment of the Port.



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Management's Discussion and Analysis, continued

**PORT MODERNIZATION PROGRAM UPDATE**

In September of 2010, the Port received a \$50 million grant from the Department of Defense in support of the Phase I-A of the Port Modernization Program. The United States Department of Agriculture (USDA) subsequently announced in October that they have awarded the Port Authority of Guam \$54.5 million in loans to complete the funding for Phase I-A of the Port Modernization Program.

After months of discussion with Maritime Administration (MARAD) of the Department of Transportation on the proposed implementation plan, the Port received MARAD's proposed Implementation Plan (IP) adjustment in May 2011 which considers reprioritizing the Phase I-A Base Package on a combination of cargo enhancements (productivity) and sustainability components, with a key premise that additional funding for all of Phase I-A may not be forthcoming near-term. Subsequent to PAG receipt of the MARAD IP Addendum, key US Congressional Leaders (Senators Webb, Levin, and McCain) called for a reassessment of Guam's Military Buildup Program in the face of the pressing budget problems in Japan and the U.S. The PAG interpreted the Senators' statements as a call for a DOD program reset and a strong indication that projected cargo forecasts were no longer reliable. The combination of a perceived program reset, less than projected cargo demands, and the absence of additional, immediate, and substantive Federal funding for the Modernization Program, has forced the PAG to re-think their approach and priorities. It was agreed, at these meetings, that MARAD will develop a Phase I-A Base Execution Package utilizing the \$50M DOD funding in the Enterprise Fund. Included in the Base Program would be maintenance and repair of damaged concrete structures at Berth F-5. It was also agreed that this Base Package will be supplemented, in the future, with just-in-time borrowing against the \$50M (\$25M Direct and \$25M Guaranteed) USDA Loan Funds as real cargo flow and/or tariff adjustments create the revenue needed to sustain the USDA Loan payback requirements.

After months of meetings that included Port officials, MARAD, the Port Users Group Guam (PUGG) and other stakeholders, all parties agreed upon a Scope of Work (SOW) that focused on the uplands work of the Port Authority Modernization Program. However, MARAD officials recently notified the Port that they would like for the wharves to be a focus of this program and that the Port's Modernization Program would be adjusted to reflect the changes. That announcement was met with concern from Port Oversight Chairman Senator Tom Ada who encouraged MARAD to take a further look at the report conducted on the wharves by the Port's consultant, Parsons Brinckerhoff, which indicated that limited waterfront stabilization would be sufficient. Meanwhile, the PUGG wrote to Port Board Chairman Tydingco supporting the Port's desire to move forward with the uplands work as preferred by the Port Authority of Guam.

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

**PORT MODERNIZATION PROGRAM UPDATE, continued**

The Port Board of Directors and management has expressed to MARAD that they support the recommendation of the Port's Owner's Agent and Engineer of a balanced approach which is to move forward with the predominantly Phase I-A program, while simultaneously pursuing limited stabilization measures at berth F3, F4 and F6. This will accomplish affordable cargo handling capacity improvement, set the stage for modernization, and achieve limited sustainability improvements for both the uplands and waterfront structures. The Governor, Congresswoman Bordallo and the Legislature of Guam have also submitted letters and legislative resolution in support of this recommendation. MARAD is currently putting a quantifiable risk analysis, based on the seismic threat, on the various berth options. They are expected to complete this analysis by the end of the first quarter 2012 and use this data to make final construction recommendation that correspond to the present funding and Port's anticipated throughput requirements.

Congresswoman Madeleine Bordallo is requesting formal meetings with MARAD, USDA, JGPO and SDDC be held with PAG, Governor Eddie Calvo, Senator Tom Ada and herself the last week of February 2012 to discuss the balanced approach issue on the Port Modernization Program.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets**

The Authority's investment in capital assets as of September 30, 2011, totaled \$64.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, office and cargo handling equipments, inventory and construction-in-progress. The total net increase in the Authority's investment in capital assets for the current fiscal year was \$3.0 million or 5%.

Major capital asset activity during 2011 included the following:

- Building and wharf improvements increased by \$189 thousand due primarily to shore power installation in F-5 and F-6 wharf, Warehouse 1 repair and upgrade, installation of parking lights in Agat Marina and concrete spalling repair in the Administration building.
- Office and cargo handling equipments increased by \$7.0 million in 2011. The additions primarily consisted of upgrades and refurbishment repairs of Gantry 3, Gantry 2 and other cargo handling equipments costing \$6.7 million. PAG also purchased desktop, laptop computers, printers, 40 ton air condition unit and other office equipments costing \$329 thousand.
- Other fixed assets procured in FY 2011 were three panelized modular offices.

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Management's Discussion and Analysis, continued

**Debt**

At the end of 2011, the Authority had a total debt outstanding of \$3.4 million. A \$3.5 million loan from ANZ bank was approved in October 2010 for the purchase of 4 brand new Hyster Top Lifters and 10 brand new Ottawa terminal yard tractors.

The financial covenant of the loan requires the following ratios:

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

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

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

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

The interest coverage ratio is 29.84 to 1 and the debt service coverage ratio is 17.41 to 1

**FISCAL YEAR 2012 OUTLOOK**

The following are the courses of action that the Port aims to accomplish or complete in FY 2012:

**Purchase of Gantry Cranes**

The Port has been unsuccessful for several years in its attempt to purchase its own gantry cranes. Public Law 30-100 required the Port to acquire gantry cranes by December 2012. The law allowed the Port to acquire the crane through lease-to-own refurbished or purchase used cranes or new cranes.

The Governor of Guam recently signed Public Law 31-145, which authorizes PAG to enter into negotiations for the acquisition of the POLA gantry cranes owned by Matson/Horizon or its successor. Upon enactment of the law, the PAG Board of Directors formed a negotiating team, comprised of private individuals, Port management and Board members, and ensured that there were no conflicts in their participation as members of the negotiation team. The Port Board of Directors are required to review the acquisition terms recommended by the negotiation team and through a majority vote, ratify or not ratify the terms. If the majority vote of the Board is to ratify, the terms of the acquisition is to be transmitted to the PUC for review and disposition. The Port expects to finalize the negotiation within 90 days.

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

**Port Security Grant Program (PSGP)**

In August 2011, the Authority has been awarded \$2.3 million in federal security grants to help secure our island's only commercial sea port.

The Port will use \$867,151 to purchase a 1500 KW Emergency Backup Generator for the Port's Load Center. Currently the Port's backup generator is only 500KW. This new generator will enhance the Port's capability during prolonged periods of time when island power is disrupted. The remaining \$1,525,790 will be used to acquire a Mobile Containerized X-Ray Screening System. The x-ray system will then be turned over to the Guam Customs and Quarantine Agency for utilization by customs officers.

Other PSGP projects that are currently on-going and projected completion in 2012 are the Maritime and Port Security Operations Center, Container Yard Lighting and C2 Integration

**Performance Management Contract**

The Port issued a Request for Proposal (RFP) for a Performance Management Contract (PMC) in March 2010 and expected to complete the procurement process by November 2010. The RFP for the PMC was placed on stay procurement status as a result of an appeal of one of the offerors and is currently under litigation. The newly installed Board of Directors and management will be reassessing the PMC's scope of work once the RFP is allowed to commence.

The PMC was to provide management expertise, training to PAG staff and potential investments in elevating the Port operations and equipment maintenance to world class standards. They were also to participate in the modernization construction projects that the Port will undertake. The PMC was to assist the Port in improving efficiencies and continue to maximize operations while the Port Modernization program construction was on-going.

**Implementation of New Port Tariff Rules, Regulations and Rates**

The Port was mandated by Public Law 30-52 to submit to the Guam Public Utilities Commission the results of a study of existing rates, charges and cost of services provided by the Port no later than December 31, 2010. On December 30, 2010, PAG filed a Final Report on the Comprehensive Tariff Study, which was prepared by the Cornell Group, Inc., consultants for PAG and contained a proposed terminal tariff. PAG published the proposed rate increases of the proposed terminal tariff on January 28, 2011. Slater and Nakamura, consultants of PUC, has reviewed the tariff and submitted their final report to PUC's administrative law judge (ALJ). On October 27 to 28, 2011, the ALJ held duly-noticed public hearings in the villages of Hagatna, Asan and Dededo. The petition for tariff rate relief by the Port was approved by the PUC commissioners during a special meeting held on January 11, 2012.

The PUC order also requires the Port to come back within 6 months and file a five year rate plan, which shall detail any tariff rate increases for the next five years.

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Management's Discussion and Analysis, continued

**Marina Renovations**

The Port Authority of Guam, in April of 2010, was awarded \$1.8 million in federal grants by the U.S. Department of Interior for the renovations and site improvements of the Gregorio D. Perez Hagatna Marina. The renovations will include the repair of 1,660 linear feet of the 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 includes 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 marina.

**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](http://www.portguam.com).

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

Statements of Net Assets

	<u>2011</u>	September 30, <u>2010</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$10,710,367	\$ 7,574,987
Accounts receivable, net of allowance for doubtful accounts of \$1,141,114 in 2011 and \$1,863,477 in 2010	5,009,950	6,724,712
Prepaid expenses	<u>139,109</u>	<u>---</u>
Total current assets	15,859,426	14,299,699
Replacement parts inventories, net of allowance for obsolescence of \$113,243 in 2011 and \$126,636 in 2010	123,872	138,467
Property, plant and equipment, net	<u>64,406,381</u>	<u>61,374,710</u>
	<u>\$80,389,679</u>	<u>\$75,812,876</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable, trade and others	\$ 4,637,654	\$ 5,790,316
Security deposits and other payables	251,150	444,917
Accrued payroll and withholdings	344,201	508,722
Current portion of accrued annual leave	856,942	870,427
Deferred revenue	210,463	269,401
Current portion of long-term bank debt	<u>144,144</u>	<u>---</u>
Total current liabilities	6,444,554	7,883,783
Accrued annual leave, net of current portion	524,620	359,274
Accrued sick leave	1,028,941	889,417
Long-term bank debt, net of current portion	<u>3,210,951</u>	<u>---</u>
Total liabilities	<u>11,209,066</u>	<u>9,132,474</u>
Net assets:		
Invested in capital assets, net of related debt	64,406,381	61,374,710
Unrestricted	<u>4,774,232</u>	<u>5,305,692</u>
Total net assets	<u>69,180,613</u>	<u>66,680,402</u>
	<u>\$80,389,679</u>	<u>\$75,812,876</u>

*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,	
	<u>2011</u>	<u>2010</u>
Operating revenues:		
Cargo throughput charges	\$23,604,599	\$24,281,472
Equipment and space rental	7,453,245	7,364,885
Wharfage charges	3,939,244	4,130,568
Special services	368,421	382,023
Other operating income	<u>485,307</u>	<u>397,278</u>
	35,850,816	36,556,226
Less bad debts	<u>( 126,301)</u>	<u>( 741,617)</u>
	<u>35,724,515</u>	<u>35,814,609</u>
Operating expenses:		
Management and administration	8,236,302	7,936,177
Equipment maintenance	5,609,224	5,753,311
Transportation services	4,371,798	3,732,562
Depreciation	3,350,881	2,808,292
Stevedoring services	2,974,329	2,722,734
Utilities	2,215,178	2,424,599
Insurance	1,840,210	2,380,452
Terminal services	1,844,832	1,557,797
Facility maintenance	1,468,589	1,343,406
General expenses	<u>3,234,644</u>	<u>2,924,943</u>
Total operating expenses	<u>35,145,987</u>	<u>33,584,273</u>
Earnings from operations	<u>578,528</u>	<u>2,230,336</u>
Nonoperating (expenses) revenues:		
U.S. Government operating grants	738,354	12,892
Loss from disposal of property, plant and equipment and other expenses	<u>( 245,599)</u>	<u>( 22,862)</u>
Contribution to Autonomous Agency Infrastructure Collection Fund	<u>( 700,000)</u>	---
Interest (expense) income, net	<u>( 62,588)</u>	170,307
Insurance settlement	---	1,647,269
COLA/supplemental annuities	<u>( 2,221,807)</u>	<u>( 3,052,573)</u>
Total nonoperating expenses, net	<u>( 2,491,640)</u>	<u>( 1,244,967)</u>
(Loss) earnings before capital contributions	<u>( 1,913,112)</u>	985,369
U.S. Government grants	<u>4,413,323</u>	<u>6,076,737</u>
Increase in net assets	2,500,211	7,062,106
Net assets at beginning of year	<u>66,680,402</u>	<u>59,618,296</u>
Net assets at end of year	<u>\$69,180,613</u>	<u>\$66,680,402</u>

*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,	
	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$37,186,572	\$33,998,055
Cash payments to suppliers for goods and services	(12,702,506)	(10,565,005)
Cash payments to employees for services and benefits	<u>(23,164,719)</u>	<u>(21,528,797)</u>
Net cash provided by operating activities	<u>1,319,347</u>	<u>1,904,253</u>
<b>Cash flows from investing activity - interest received</b>	<u>140,322</u>	<u>170,307</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital grants received	5,151,677	6,076,737
Proceeds from long-term bank debt	3,500,000	---
Repayment of long-term bank debt	( 144,905)	---
Interest paid	( 202,910)	---
Purchase of property, plant and equipment	<u>( 6,628,151)</u>	<u>(11,554,100)</u>
Net cash provided by (used in) capital and related financing activities	<u>1,675,711</u>	<u>( 5,477,363)</u>
<b>Cash flows from non-capital related financing activities:</b>		
Operating grants received	---	12,892
Insurance settlement received	<u>---</u>	<u>50,561</u>
Cash provided by non-capital and related financing activities	<u>---</u>	<u>63,453</u>
Net increase (decrease) in cash and cash equivalents	3,135,380	( 3,339,350)
Cash and cash equivalents at beginning of year	<u>7,574,987</u>	<u>10,914,337</u>
Cash and cash equivalents at end of year	<u>\$10,710,367</u>	<u>\$ 7,574,987</u>

*See accompanying notes to financial statements.*

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

Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2011</u>	<u>2010</u>
<b>Reconciliation of earnings from operations to net cash provided by operating activities:</b>		
Earnings from operations	\$ 578,528	\$2,230,336
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	3,350,881	2,808,292
Payments for COLA/supplemental annuities	(2,221,807)	(3,052,573)
Bad debts	126,301	741,617
Changes in operating assets and liabilities:		
Accounts receivable, net	1,588,461	(2,654,603)
Prepaid expenses	( 139,109)	---
Replacement parts inventories, net	14,595	4,680
Accounts payable, trade and others	(1,852,662)	1,496,712
Security deposits and other payables	( 193,767)	40,702
Accrued payroll and withholdings	( 164,521)	( 113,111)
Accrued annual leave	151,861	167,307
Deferred revenue	( 58,938)	55,730
Accrued sick leave	<u>139,524</u>	<u>179,164</u>
Net cash provided by operating activities	<u>\$1,319,347</u>	<u>\$1,904,253</u>

*See accompanying notes to financial statements.*

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

Notes to Financial Statements

September 30, 2011 and 2010

**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.

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

Notes to Financial Statements, continued

**1. Organization and Summary of Significant Accounting Policies, continued**

**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 nonoperating expenses and revenues. Capital grants and other contributions from governmental agencies are recorded as net assets when earned. Operating grants are recorded as revenue when earned.

**Net Assets**

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

*Invested in capital assets, net of related debt:*

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

*Restricted:*

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

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

*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, 2011 and 2010.

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

Notes to Financial Statements, continued

**1. Organization and Summary of Significant Accounting Policies, continued**

**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 accounts receivables as of September 30, 2011 and 2010 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, 2011 and 2010, receivables that are more than ninety days past due totaled approximately \$1,230,434 and \$2,084,000, 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.

**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**

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.

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

Notes to Financial Statements, continued

**1. Organization and Summary of Significant Accounting Policies, continued**

**Compensated Absences**

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

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

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service;
2. Three-fourths day (6 hours) for each full bi-weekly pay period in the case of employees with more than five (5) years of service but less than fifteen (15) years of service; and
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

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, 2011 and 2010.

**Estimates**

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

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

Notes to Financial Statements, continued

**1. Organization and Summary of Significant Accounting Policies, continued**

**New Accounting Standard**

In December 2009, GASB issued Statement No. 57, *“Other Postemployment Benefits (OPEB) Measurements by Agent Employers and Agent Multiple-Employer Plans,”* effective for periods beginning after June 15, 2011. This statement amends Statement No. 45, *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”* and Statement No. 43, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.”* The statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans and by the multiple-employer OPEB plans in which they participate. 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 statements.

In November 2010, the GASB issued Statement No. 60, *“Accounting and Financial Reporting for Service Concession Arrangements,”* effective for periods beginning after December 15, 2011. The statement establishes guidance for accounting and financial reporting for service concession arrangements. The Authority is currently evaluating the effects this statement will have on its financial statements.

In November 2010, GASB issued Statement No. 61, *“The Financial Reporting Entity: Omnibus,”* effective for periods beginning after June 15, 2012. The statement addresses reporting entity issues that have arisen since the issuance of Statement No. 14 and Statement No. 34. The Authority is currently evaluating the effects this statement will have on its financial statements.

In December 2010, GASB issued Statement No. 62, *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,”* effective for periods beginning after December 15, 2011. The statement incorporates into the GASB’s authoritative literature certain accounting and financial guidance issued on or before November 30, 1989. The Authority is currently evaluating the effects this statement will have on its financial statements.

In June 2011, GASB issued Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,”* effective for periods beginning after December 15, 2011. The statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The Authority is currently evaluating the effects this statement will have on its financial statements.



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

Notes to Financial Statements, continued

**1. Organization and Summary of Significant Accounting Policies, continued**

**New Accounting Standard, continued**

In June 2011, GASB issued Statement No. 64, “*Derivative Instruments: Application of Hedge Accounting Termination Provisions*,” effective for periods beginning after June 15, 2011. The statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. The statement also sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Authority is currently evaluating the effects this statement will have on its financial statements.

**Subsequent Events**

The Authority has evaluated subsequent events through January 26, 2012, 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, 2011 and 2010 is as follows:

	<u>Beginning Balance October 1, 2010</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2011</u>
<u>Depreciable assets:</u>				
Buildings	\$70,502,621	\$ 189,457	\$ ---	\$70,692,078
Equipment	<u>24,824,596</u>	<u>7,481,047</u>	<u>(4,131,151)</u>	<u>28,174,492</u>
	95,327,217	7,670,504	(4,131,151)	98,866,570
Less accumulated depreciation	<u>(52,097,070)</u>	<u>(3,350,881)</u>	<u>3,902,863</u>	<u>(51,545,088)</u>
	<u>43,230,147</u>	<u>4,319,623</u>	<u>( 228,288)</u>	<u>47,321,482</u>
<u>Non-depreciable assets:</u>				
Land	3,563,000	---	---	3,563,000
Construction work-in-progress	<u>14,581,563</u>	<u>6,213,756</u>	<u>(7,273,420)</u>	<u>13,521,899</u>
	<u>18,144,563</u>	<u>6,213,756</u>	<u>(7,273,420)</u>	<u>17,084,899</u>
Total	<u>\$61,374,710</u>	<u>\$10,533,379</u>	<u>\$(7,501,708)</u>	<u>\$64,406,381</u>

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

Notes to Financial Statements, continued

**2. Property, Plant and Equipment, continued**

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

**3. Deposits and Investments**

As of September 30, 2011 and 2010, the carrying amount of the Authority's cash and cash equivalents totaled \$10,710,367 and \$7,574,987, respectively, all of which were maintained in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2011 and 2010, bank deposits in the amount of \$750,000 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.

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

Notes to Financial Statements, continued

**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.

The Authority recorded \$1,596,708 in estimated remaining costs to repair the Port's facilities arising from an earthquake and typhoon 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.

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.

Port Authority of Guam  
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Notes to Financial Statements, continued

**5. Employees' Retirement Plan, continued**

**Defined Benefit Plan, continued**

*Plan Description, continued*

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](http://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, 2011, 2010 and 2009, the annual actuarially required contribution rates are 30.09%, 28.06% and 29.31%, respectively. The Authority used the statutory contribution rates of 27.46%, 26.04% and 25.20% for the years ended September 30, 2011, 2010 and 2009, respectively.

The Authority's contribution to the DB Plan for the years ended September 30, 2011, 2010 and 2009 totaled \$4,310,663, \$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.

Port Authority of Guam  
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Notes to Financial Statements, continued

**5. Employees' Retirement Plan, continued**

**Defined Contribution Retirement System (DCRS), continued**

Statutory employer contributions into the DCRS plan for the years ended September 30, 2011 and 2010, 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 \$1,028,941, \$889,417 and \$710,253 at September 30, 2011, 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.

Port Authority of Guam  
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Notes to Financial Statements, continued

**6. Long-Term Liabilities**

Summary

Long-term liabilities of the Authority consist of annual leave and sick leave payable to its employees and long-term bank debt. Changes in long-term liabilities for the years ended September 30, 2011 and 2010 are as follows:

	Outstanding at September 30, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding at September 30, <u>2011</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued annual leave	\$1,229,701	\$ 151,861	\$ ---	\$1,381,562	\$ 856,942	\$ 524,620
Accrued sick leave	889,417	139,524	---	1,028,941	---	1,028,941
Long-term bank debt	<u>---</u>	<u>3,500,000</u>	<u>144,905</u>	<u>3,355,095</u>	<u>144,144</u>	<u>3,210,951</u>
	<u>\$2,119,118</u>	<u>\$3,791,385</u>	<u>\$ 144,905</u>	<u>\$5,765,598</u>	<u>\$1,001,086</u>	<u>\$4,764,512</u>
	Outstanding at September 30, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding at September 30, <u>2010</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued annual leave	\$1,062,394	\$167,307	\$ ---	\$1,229,701	\$870,427	\$ 359,274
Accrued sick leave	<u>710,253</u>	<u>179,164</u>	<u>---</u>	<u>889,417</u>	<u>---</u>	<u>889,417</u>
	<u>\$1,772,647</u>	<u>\$346,471</u>	<u>\$ ---</u>	<u>\$2,119,118</u>	<u>\$870,427</u>	<u>\$1,248,691</u>

Long-term Bank Debt

On October 22, 2010, the Authority obtained \$3,500,000 proceeds of the United States Department of Agriculture (USDA) Guaranteed Term Loan with ANZ Guam, Inc. (ANZ). The total USDA Guaranteed Term Loan amounts to \$4,500,000, of which \$1,000,000 is unused as of September 30, 2011. The proceeds of this term loan was used to reimburse the Authority for the acquisition of four top lifters and ten terminal yard contractors, in which the Authority used its own funds to facilitate the acquisition.

This term loan is secured by the above equipments, 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, 2011), payable in monthly installments of approximately \$30,000 in principal and interest for 15 years.

As of September 30, 2011, the outstanding balance on the term loan amounted to \$3,355,095, of which \$144,144 is current.

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Notes to Financial Statements, continued

**6. Long-Term Liabilities, continued**

Future minimum payments of long-term bank debt are as follows:

<u>Year ending September 30,</u>	
2012	\$ 144,144
2013	166,821
2014	177,428
2015	188,709
2016	200,707
Thereafter	<u>2,477,286</u>
	<u>\$3,355,095</u>

**7. Major Customers**

The Authority has five major shipping line customers that collectively account for 84.24% and 80.63% of total operating revenues for the years ended September 30, 2011 and 2010, respectively. The Authority has a high concentration of credit risk due to the limited number of entities comprising its customer base. In November 2011, one of the Authority's major customers, Horizon Lines, Inc., discontinued its Five Star Express trans-Pacific container shipping service between the U.S. West Coast, Guam and China.

**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 rental receivable on noncancelable operating leases for the five succeeding fiscal years and thereafter, are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2012	\$ 401,000
2013	401,000
2014	401,000
2015	401,000
2016	401,000
Thereafter	<u>1,756,000</u>
	<u>\$3,761,000</u>

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Notes to Financial Statements, continued

**9. 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 \$7,453,245 and \$7,364,885 respectively, for the years ended September 30, 2011 and 2010, 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Medical and dental	\$1,439,584	\$1,045,627
Supplemental benefits	727,658	1,952,134
Life insurance	<u>54,565</u>	<u>54,812</u>
	<u>\$2,221,807</u>	<u>\$3,052,573</u>

**11. Port Modernization Plan**

*Overview*

The Port Modernization Program, as authorized by the Guam Legislature, spans a 30-year planning horizon and is valued at a little more than \$260 million. Phase I-A and Phase I-B of the program should be accomplished over the next five years with a focus 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 20 years into the future and focuses on the expansion needed to address the cargo demands of the long-term growth of Guam and its neighboring islands.

The Authority is currently 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 and will be funded by: (a) \$50 million appropriation from the Department of Defense combined with (b) \$54.5 million in loans from the United States Department of Agriculture (USDA).



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Notes to Financial Statements, continued

**11. 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, MARAD’s role is to provide federal oversight and coordination of projects under the program, act as a central procurement organization, leverage federal, non-federal and private funding sources, and streamline the environmental review and permitting process. This partnership with MARAD was formalized through U.S. Public Law 110-417, National Defense Authorization Act for 2010. U.S. Public Law 110-417 also established the “Port of Guam Improvement Enterprise Fund” (the Fund) which is a separate account in the Treasury of the United States and will be used to receive funding from federal and non-federal sources to carry out the Program.

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 Barack Obama in August 2010. The appropriation of \$50 million was transferred from the Department of Defense to the Fund on September 22, 2010. As set out in the MOU, the fund will be administered and disbursed by MARAD, with the approval/authorization of the Authority.

*\$54.5 million funding from the USDA*

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

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

On the same date, the Authority received the proceeds of the USDA Guaranteed Term Loan with ANZ of \$3,500,000 (see Note 6).

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Notes to Financial Statements, continued

**12. Commitments and Contingencies**

Government of Guam General Fund

The Guam Legislature has enacted Public Law 24-14 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 (AAICF). The Government of Guam and the Authority's 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.

In March 2011, the Authority received an invoice from the Government of Guam's Department of Administration (DOA) for the annual assessment of the proportioned amount of \$875,000 per fiscal year from 1998 through 2011 totaling \$12,250,000. In May 2011, the Authority responded to DOA's assessment, requesting a further review based on the historical financial information presented. The Authority believes that it does not owe DOA the entire \$12,250,000 based on the total funds transferred to the AAICF, government services funded by Port's funds (i.e., Guam Customs and Quarantine Agency, Guam Environment and Protection Agency, Guam Police Department and Guam Fire Department with ongoing operations at the Port) and other projects that the Port currently funds (i.e., share in GEDA and Port's Base Realignment and Closure commission) and will fund (i.e., Tri-Star Pipeline and water line projects) in the future. Also, based on management's analysis of Public Law 24-14, the Authority is only liable to transfer amounts to the AACIF when there is an operating surplus. From 1997, when the public law was passed up to 2002, the Authority reported an operating loss during these fiscal years.

As of September 30, 2011, the Authority accrued \$700,000 payable to DOA, which represents its current liability based on Public Law 31-74, which is shown as a component of accounts payable, trade and others in the accompanying 2011 statement of net assets. The Authority believes that it does not owe DOA anything other than the \$700,000 since the implementation of Public Law 24-14.

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.

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Notes to Financial Statements, continued

**12. Commitments and Contingencies, continued**

Debt and Commitment

The Authority's bank loan agreement (see Note 6) contains financial covenants that require the maintenance of certain interest coverage and debt service ratios. Interest coverage ratio is computed as net profit or loss before depreciation, interest, taxes and amortization over total interest expense. The Authority is required to maintain an interest coverage ratio of 1.5 to 1. Debt service coverage ratio is computed as net profit or loss before depreciation, interest, taxes and amortization over total interest expense and principal debt reduction. The Authority is required to maintain a debt service coverage ratio of 1.3 to 1. The agreements also place certain restrictions on the collateral and the coverage for insurance. As of September 30, 2011, the Authority is in compliance with the above debt covenants.

USDA Rural Development Community Facility Loans

Presented below are the USDA Rural Development Community Facility (CF) Loan Commitments as of September 30, 2011, which are intended for the Authority's specific projects (i.e., purchase of a Gantry Crane, Port Modernization Plan and purchase of top lifters and other cargo handling equipment (TLOCHE)):

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

\*Proceeds of the CF Direct Loans will come from USDA, while the rest are from ANZ which is "Guaranteed" by the USDA; except for the \$1 million unused portion of CF Guaranteed Loan 4, which the Authority will issue a request for proposal by fiscal year 2012.

Of the above, CF Loan 4 (Guaranteed) of \$4,500,000 which is intended for the purchase of cargo handling equipment, was issued by ANZ through a guaranteed term loan agreement (see Note 6). During 2011, the Authority used \$3,500,000 of this loan, with \$1,000,000 unused as of September 30, 2011. The outstanding balance of this term loan as of September 30, 2011 amounts to \$3,355,095 (see Note 6).

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Notes to Financial Statements, continued

**12. Commitments and Contingencies, continued**

*USDA Rural Development Community Facility Loans, continued*

CF Loans 4 (Guaranteed), 5 (Direct) and 6 (Guaranteed) totaling \$54.5 million pertains to the Port Modernization Plan as per Public Law 30-57.

The Authority intends to first use the \$50 million appropriation from the Department of Defense and then the CF Loans 5 (Direct) and 6 (Guaranteed) totaling \$50 million (at \$25 million each) for its Port Modernization Plan. However, due to changes in certain factors relating to the military buildup and cargo forecast, management does not intend to utilize the \$25 million CF Loan 6 (Guaranteed).

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

CF Loans 1 (Direct), 2 (Guaranteed) and 3 (Guaranteed) totaling \$14 million is intended for the procurement of gantry cranes pursuant to Public Law 30-100 which mandates the Authority to acquire at least two gantry cranes no later than December 31, 2012. On December 19, 2011, the Authority established a team to negotiate with Matson & Horizon for the acquisition of one or more refurbished cranes. Pursuant to Public Law 31-145 the Authority is to enter into negotiations with Matson and Horizon for the specific purpose of acquiring one or more of the gantry cranes through purchase or lease-to-own. The Authority expects to comply with the provisions of Public Law 31-145 within 60 to 90 days from November 17, 2011, the date when the public law was passed. In relation to this the Authority requested for an extension on the utilization of the \$14 million CF Loans 1 (Direct), 2 (Guaranteed) and 3 (Guaranteed) until March 31, 2012.

Port Authority of Guam  
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Notes to Financial Statements, continued

**12. Commitments and Contingencies, continued**

*Lawsuit and Claims*

The Authority is a defendant in various lawsuits and proceedings arising in the normal course of business. While the outcome of these lawsuits and proceedings cannot be predicted with certainty and could have a material adverse effect on the Authority's financial statements, it is the opinion of management, after consulting with its legal counsel, that the ultimate disposition of such suits and proceedings will not have a material adverse effect on the Authority's financial statements. As of September 30, 2010, the Authority has accrued \$400,000 in contingencies in the accompanying financial statements.

Based on recent developments and available information regarding certain matters, the Authority's legal counsel believes that the contingency accrual of \$400,000 is no longer required. The Authority reversed the contingency accrual in 2011.

## Other Financial Information

Port Authority of Guam  
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Details of Operating Expenses

	Year ended September 30,	
	<u>2011</u>	<u>2010</u>
<b>Management and administration:</b>		
<i>Management:</i>		
Salaries and wages - regular	\$ 237,072	\$ 228,309
Benefits - Government contribution	71,073	62,539
Miscellaneous	22,768	8,027
Annual leave	12,478	13,932
Fringe benefits	8,499	7,336
Office supplies	2,133	1,642
Furnishings and equipment	1,962	299
Salaries and wages - overtime	<u>---</u>	<u>782</u>
Total management	<u>355,985</u>	<u>322,866</u>
<i>Administration:</i>		
Salaries and wages - regular	4,974,332	4,533,712
Benefits - Government contribution	1,538,060	1,328,278
Annual leave	391,834	400,098
Fringe benefits	319,710	217,538
Miscellaneous	231,125	755,780
Repairs and maintenance	169,143	164,328
Salaries and wages - overtime	112,746	64,214
Salaries and wages - other	55,543	54,656
Office supplies	31,371	25,097
Furnishings and equipment	30,055	39,969
Operational supplies	<u>26,398</u>	<u>29,641</u>
Total administration	<u>7,880,317</u>	<u>7,613,311</u>
Total management and administration	<u>\$8,236,302</u>	<u>\$7,936,177</u>
Employees at end of year	129	124

Port Authority of Guam  
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Details of Operating Expenses, continued

	Year ended September 30,	
	<u>2011</u>	<u>2010</u>
<b>Equipment Maintenance:</b>		
Salaries and wages - regular	\$1,981,044	\$1,774,552
Repairs and maintenance	1,568,612	1,825,777
Benefits - Government contribution	659,839	561,633
Operational supplies	608,847	893,693
Salaries and wages - other	197,090	193,156
Salaries and wages - overtime	190,304	234,117
Fringe benefits	170,183	96,905
Annual leave	147,120	148,776
Contractual	53,206	19,474
Furnishings and equipment	31,506	3,985
Office supplies	<u>1,473</u>	<u>1,243</u>
 Total equipment maintenance	 <u>\$5,609,224</u>	 <u>\$5,753,311</u>
 Employees at end of year	 60	 42
<b>Transportation Services:</b>		
Salaries and wages - regular	\$2,352,393	\$2,135,770
Benefits - Government contribution	780,862	659,939
Gas, oil and diesel	559,429	414,783
Fringe benefits	203,314	144,296
Annual leave	187,196	187,974
Salaries and wages - overtime	158,404	78,048
Salaries and wages - other	127,702	109,575
Operational supplies	1,324	706
Office supplies	861	749
Furnishings and equipment	313	27
Miscellaneous	<u>---</u>	<u>695</u>
 Total transportation services	 <u>\$4,371,798</u>	 <u>\$3,732,562</u>
 Employees at end of year	 63	 66



**Port Authority of Guam**  
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Details of Operating Expenses, continued

	Year ended September 30,	
	<u>2011</u>	<u>2010</u>
<b>Stevedoring Services:</b>		
Salaries and wages - regular	\$1,823,300	\$1,714,989
Benefits - Government contribution	596,122	523,167
Salaries and wages - overtime	167,483	139,787
Fringe benefits	133,972	85,275
Annual leave	128,843	136,104
Salaries and wages - other	119,806	101,252
Operational supplies	3,022	21,312
Office supplies	<u>1,781</u>	<u>848</u>
Total stevedoring services	<u>\$2,974,329</u>	<u>\$2,722,734</u>
Employees at end of year	52	54
<b>Facility Maintenance:</b>		
Salaries and wages - regular	\$ 893,115	\$ 800,314
Benefits - Government contribution	286,360	235,949
Operational supplies	100,933	109,910
Annual leave	73,797	75,560
Fringe benefits	64,194	40,143
Salaries and wages - overtime	21,193	14,754
Salaries and wages - other	20,173	17,053
Miscellaneous	7,068	17,798
Furnishings and equipment	1,257	31,202
Office supplies	<u>499</u>	<u>723</u>
Total facility maintenance	<u>\$1,468,589</u>	<u>\$1,343,406</u>
Employees at end of year	24	25

Port Authority of Guam  
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Details of Operating Expenses, continued

	Year ended September 30,	
	<u>2011</u>	<u>2010</u>
<b>Terminal Services:</b>		
Salaries and wages - regular	\$ 1,197,439	\$1,048,377
Benefits - Government contribution	378,347	313,329
Fringe benefits	104,786	57,180
Annual leave	79,325	78,302
Salaries and wages - other	35,291	24,988
Salaries and wages - overtime	33,630	28,780
Office supplies	12,264	6,841
Furnishings and equipment	3,606	---
Operational supplies	<u>144</u>	<u>---</u>
Total terminal services	<u>\$ 1,844,832</u>	<u>\$1,557,797</u>
Employees at end of year	36	36
<b>General Expenses:</b>		
Professional services	\$ 1,702,934	\$ 797,113
Legal counsel	445,854	731,995
Managers' fee	407,969	537,383
Miscellaneous	213,676	35,104
Waste removal	129,138	117,187
Workmen's compensation injury allowance	106,701	92,815
Maintenance	89,255	72,401
Audit	47,158	40,992
Port incentive award	35,802	38,146
Claims and damages	31,282	405,500
Agency fee	30,087	38,833
Inventory adjustment	( 8,973)	13,874
Board of Directors expense	<u>3,761</u>	<u>3,600</u>
Total general expenses	<u>\$ 3,234,644</u>	<u>\$2,924,943</u>

**Port Authority of Guam**  
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**Summary of Salaries and Wages**

	Year ended September 30,	
	<u>2011</u>	<u>2010</u>
Salaries and wages - regular	\$13,458,695	\$12,236,023
Benefits - Government contribution	4,310,663	3,684,834
Fringe benefits	1,004,658	648,673
Salaries and wages - overtime	683,760	560,482
Salaries and wages - other	<u>555,605</u>	<u>500,680</u>
	<u>\$20,013,381</u>	<u>\$17,630,692</u>
 Total employees at end of year	 364	 347