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

FINANCIAL STATEMENTS, ADDITIONAL
INFORMATION AND
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2016 AND 2015

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Port Authority of Guam:

Report on Financial Statements

We have audited the accompanying financial statements of Port Authority of Guam (the Authority), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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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, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 8 to the financial statements, the Authority is a defendant in a claim filed by a former tenant (Guam YTK Corporation or YTK) of the Port. The dispute was submitted to arbitration and in April 2016, the Arbitrators issued a decision in favor of YTK and awarded YTK approximately $14 million. In December 2016, the Superior Court of Guam denied the Authority's motion to vacate the Arbitration Award and granted YTK's Motion to Confirm the Award. In January 2017, the Authority's Board of Directors decided to appeal the matter to the Guam Supreme Court or other courts as necessary.

No provision has been recorded in the accompanying financial statements for the resolution of this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 15 as well as the Schedule of Proportional Share of the Net Pension Liability on page 42, and the Schedule of Pension Contributions on page 43 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other Than Pensions that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Financial Information

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

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Other Matters, Continued

Other Financial Information, Continued

The schedules of operating expenses and summary of salaries and wages on pages 44 through 48 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses and summary of salaries and wages are fairly stated, in all material respects, in relation to the financial statements as a whole.

The schedule of employees by department on page 49 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deloitte & Touche LLP

February 13, 2017

Management's Discussion and Analysis
September 30, 2016 and 2015

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, 2016 and 2015. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the accompanying notes which follow this section and are integral to the data contained in the financial statements.

ABOUT THE AUTHORITY

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

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

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

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

FINANCIAL HIGHLIGHTS

- The net position of the Authority as of September 30, 2016 was $101 million. Of this amount, $102 million is net investment in capital assets, $5.5 million is considered restricted and $(6.4) million is considered unrestricted.
- The Port's net position increased by $7.1 million for fiscal year ended September 30, 2016.
- The Port's total assets increased by $7.6 million during the fiscal year ended September 30, 2016. The major component of this change was an increase in current assets.
- The total liabilities increased by $5.9 million during fiscal year ended September 30, 2016. The major component of this change was due to increase in net pension liability of $4.7 million.
- Since Fiscal Year 2003, the Port's finances have consistently showed an increase in net assets for 14 straight years.

Overview of Financial Statements

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

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

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

Financial Analysis

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

In 2015, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. GASB Statements No. 68 and No. 71 establish standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to employees of state and local governments. The Authority participates in a single-employer pension plan as defined by GASB Statement No. 68. The implementation resulted in the recognition of pension expense as well as the reporting of deferred outflows and inflows of resources and a net pension liability based on the Authority's proportionate share of those of the overall plan. Refer to Note 4 for details of the pension plan.

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

Condensed Statements of Net Position
(In thousands)

ASSETS	2016	2015	2014 (Restated)
Current and other assets	$ 41,191	$ 31,407	$ 23,299
Capital assets	122,948	125,091	71,562
Total assets	164,139	156,498	94,861
Deferred outflows of resources from pension	5,292	4,452	4,063
Total assets and deferred outflows of resources	$ 169,431	$ 160,950	$ 98,924
LIABILITIES AND NET POSITION			
Current liabilities	$ 6,352	$ 6,102	$ 5,462
Other non-current liabilities	62,414	56,710	59,190
Total liabilities	68,766	62,812	64,652
Deferred inflows of resources from pension	-	4,565	2,657
Net position:			
Net investment in capital assets	101,528	104,706	57,614
Restricted – expendable	5,531	4,257	966
Unrestricted	(6,394)	(15,390)	(26,965)
Total net position	100,665	93,573	31,615
Total liabilities, deferred inflows of resources and net position	$ 169,431	$ 160,950	$ 98,924

The Authority's total assets increased by $7.6 million during the fiscal year ended September 30, 2016, from $156.5 million in FY 2015 to $164.1 million in FY 2016.

The Port's current and other assets increased by $9.8 million or 31%, capital assets decreased by $2.1 million or 2%. Total liabilities increased by $6 million or 9% from $62.8 million in FY 2015 to $68.8 million in FY 2016. This was primarily due to the increase in Port's other non-current liabilities by $5.7 million or 10%. The net position increased by $7.1 million during the fiscal year ended September 30, 2016. Net position invested in capital assets net of related debt decreased by $3 million, restricted net position increased by $1.3 million and unrestricted net position increased by $9 million.

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

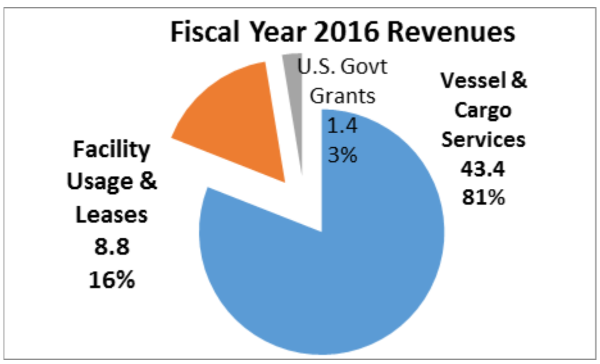
Port Authority of Guam
Changes in Net Position
(In thousands)

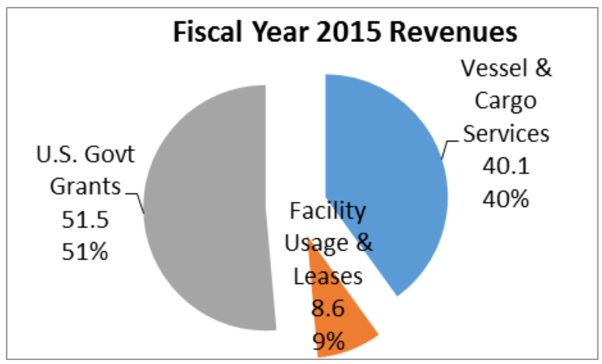
	2016	2015	2014 (Restated)
Operating revenues:			
Cargo throughput charges	$ 38,206	$ 34,309	$ 32,078
Wharfage charges	4,930	4,617	4,493
Equipment and space rental	8,753	8,563	7,709
Special services	226	263	298
Other operating revenue	93	919	374
Total operating revenue	52,208	48,671	44,952
Recovery of (provision for) bad debts	341	(222)	(70)
	52,549	48,449	44,882
Operating expenses:			
Operations	10,574	8,814	9,633
Equipment maintenance	5,090	4,903	5,396
Facility maintenance	1,520	1,294	1,513
Management and administration	9,149	7,145	7,925
COLA/supllemental annuities	3,030	2,790	2,320
General expenses	8,493	7,421	7,458
Total operating expenses before depreciation	37,856	32,367	34,245
Operating income before depreciation	14,693	16,082	10,637
Depreciation	6,145	4,817	4,837
Operating income	8,548	11,265	5,800
Nonoperating expenses, net	2,835	783	5,410
Income before capital contributions	5,713	10,482	390
Capital contributions-US Government Grants	1,379	51,476	4,165
Increase in net position	7,092	61,958	4,555
Net position at beginning of the year	93,573	31,615	27,060
Net position at end of year	$ 100,665	$ 93,573	$ 31,615

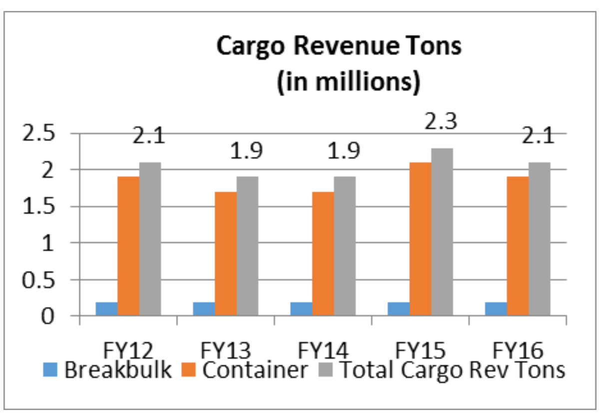
Revenues

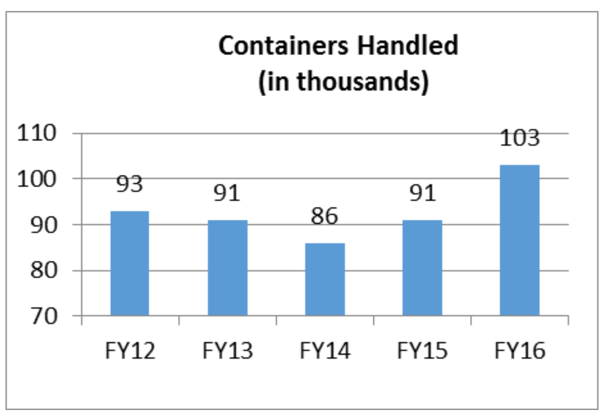
- PAG Docket 15-04, first year's rate increase of the Multi Year Tariff was approved by the PUC on October 27, 2015 and rates were implemented on December 1, 2015. The petition implemented a 7% increase to PAG's Terminal Tariff rates with the exception of the Bunkering/Fuel throughput/Waste Oil rates and the Crane Surcharge.
- Vessel and cargo services revenues in FY 2016 increased by $3.3 million. The increase was primarily due to implementation of new tariff rates and increase in cargo volume.
- Facility usage and leases increased by 2% or $190 thousand, from $8.6 million in FY 2015 to $8.7 million in FY 2016.
- Federal contributions in FY 2016 decreased by $50 million, from $51.5 million in FY 2015 to $1.4 million in FY 2016. FY2015 Federal contribution was primarily due to the Port Modernization Program (PMP). No funds under the PMP passed to the Port. The Port of Guam Improvement Enterprise Program was created and MARAD was appointed as the lead federal agency to administer and disburse this program.

Vessel and cargo services in FY 2015 increased by $2.9 million compared to FY 2014 primarily due to the full year implantation of the Interim Rate Increase and cargo volume increase. PAG Docket 13-01, Interim Rate Petition was approved by the PUC and rate was implemented on March 2, 2014.





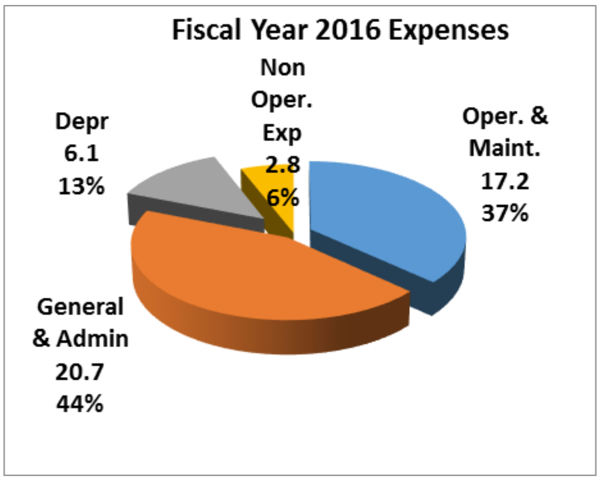


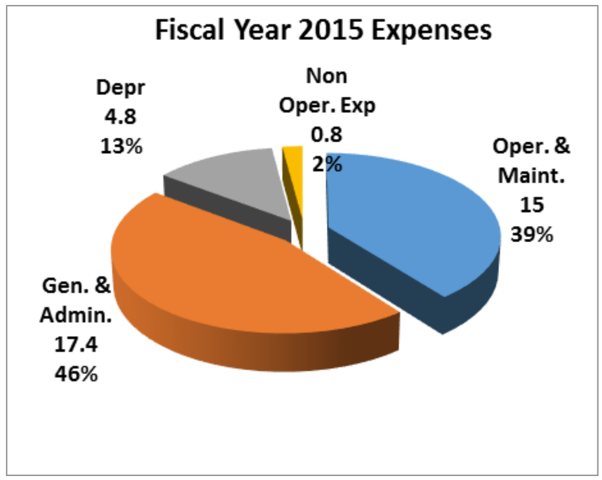


Expenses

In Fiscal Year 2016, the total operating expenses were $37.8 million and non-operating expenses were $2.8 million. Operating expense increased by $5.5 million and non-operating expenses increased $2 million compared to fiscal year 2015. Operating expenses for General Expense increased $1.3 million or 36%, Terminal Services increased by 35%, Management & Administration and Depreciation increased by 28%. Non-operating expenses increased by $2.5 million due to loss on asset disposal. The major asset surveyed this year was Gantry 3.

In Fiscal Year 2015, the total operating expenses were $32 million and non-operating expenses were $783 thousand. Operating expense decreased by $1.9 million and non-operating expenses decreased by $4.6 million compared to fiscal year 2014.





Port Modernization Plan

The Authority partnered with the Maritime Administration (MARAD), through a Memorandum of Understanding (MOU), for the "Port of Guam Improvement Enterprise Program" (the Program). MARAD was designated as the lead federal agency assisting the Port in securing funding sources to modernize its facilities and operations. Under the Program, MARAD's role is to provide federal oversight and coordination of projects under the program, act as a central procurement organization, leverage federal, non-federal and private funding sources, and streamline the environmental review and permitting process. This partnership with MARAD was formalized through U.S. Public Law 110-417, National Defense Authorization Act for 2010. U.S. Public Law 110-417 also established the "Port of Guam Improvement Enterprise Fund" (the Fund) which is a separate account in the Treasury of the United States 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 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 Port. On January 30, 2013, PAG broke ground on the long awaited and anticipated port modernization projects to be completed in three phases.

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

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

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

$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.

USDA Rural Development Community Facility Loans

Presented below are the USDA Rural Development Community Facility (CF) Loan Commitments as of September 30, 2016, 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):

	USDA Loan Commitments:		*Intended for the following Projects:*		
	Direct*	Guaranteed*	Gantry Cranes	Modernization	TLOCHE
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
	$ 2,000,000	$ 16,500,000	$ 12,000,000	$ -	$ 6,500,000

*Proceeds of the CF Direct Loans will come from USDA, while the rest are from ANZ which is "Guaranteed" by the USDA.

CF Loan 4 (Guaranteed) of $4,500,000 intended for the purchase of cargo handling equipment, for more information please refer to Notes to Financial Statements, Long-term Bank Debt.

On March 5, 2014, the Port informed USDA that we will not proceed with $25 million USDA Community Facilities Direct Loan.

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 November 2011, Public Law 31-145 was enacted that authorized the Authority to enter into negotiations with Matson and Horizon for the specific purpose of acquiring one or more of the Port of Los Angeles (POLA) gantry cranes through purchase or lease-to-own.

On June 5, 2012, the Port Board of Directors approved and ratified the purchase of the 3-POLA cranes and Gantry 3 for $12 Million Dollars. On August 27, 2012, Public Utilities Commission (PUC) approved the Sales Agreement and Interim Maintenance Agreement related to the purchase of the POLA Cranes. Subsequently, PUC in their meeting of September 25, 2012, authorized the Authority to proceed with finalizing the loan documents with the financial institution. In compliance of the statute, on December 2012, the closing of the $12M loan and official signing of the Sales Agreement for the purchase of the POLA Cranes was completed. On March 5, 2014 the Authority requested USDA to reprogram the CF Loan 1 (Direct) for $2M that is intended for the procurement of gantry crane for the acquisition of cargo handling equipment.

On July 15, 2015, the Port and USDA closed the $2M CF direct loan to purchase (8)-tractors, (4)-5 ton forklifts, (2)-portable dual operation welding machine, telescopic boom lift, compact articulated boom lift and industrial street sweeper. As of September 2016, the Port received the (2) portable welding machine, telescopic boom lift and compact articulated boom lift. The remaining equipment was procured and awaiting delivery.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Authority's investment in capital assets as of September 30, 2016, totaled $123 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvement other than buildings, office and cargo handling equipments, inventory and construction-in-progress. The total net decrease in the Authority's investment in capital assets for the current fiscal year was $2.1 million or 2%.

Major capital asset activity during 2016 included the following:

- Building and wharf account increased by $1.8 million due to High & Low Tower upgrade, Chain Link Fence Replacement and Gulf Pier Pipeline Replacement.

- Crane and Gantry 3 Relocation account decreased due to the survey of Gantry 3, $2 million loss was recognized.

- Other Equipment increased by $642 thousand due to acquisition of two (2) Articulating boom lifts and refurbishment/upgrade of two (2) Patrol Boats.

Please refer to Note 3 to the financial statements for additional details regarding capital asset activities during fiscal years 2016 and 2015.

Debt

The Authority obtained a $3.5 million loan from ANZ bank in October 2010 for the purchase of 4 brand new Hyster Top Lifters and 10 brand new Ottawa terminal yard tractors.

In December 2012, the Authority obtained a $12 million loan from ANZ bank for the purchase of 3 used gantry cranes.

In April 2014, the Port obtained a $10 million loan from BOG for the Service Life Extension project to repair and extend the life of the wharves, acquire multiple top lifter equipment and upgrade of its financial management system. The Notice to Proceed construction work was issued on December 30, 2014 to take effect January 5, 2015 and anticipated completion within 360 calendar days (January 2016). Recent change order has extended construction to be completed in April 2016. PAG encountered questionable workmanship on construction that is being resolved. PAG anticipates closing out this project in 2017. As of September 2016, the Port processed requisitions for four (4) new toplifters to be delivered by October 23, 2016.

In July 2015, the Port obtained a $2 million USDA direct loan for the purchase of 8-Tractors, 4-5 ton forklifts, telescopic boom lift, compact articulated boom lift, industrial sweeper, and 2-portable dual operation welding machine. Excess funds will be used to purchase Roll on Roll off tractor with trailor. As of September 2016, the Portable welding machine and boom lifts were delivered and the remaining equipment to be delivered in FY2017.

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:

   Net Profit (Loss) Before Depreciation, Interest, Taxes and Amortization
   Total Interest Expense

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

   Net Profit (Loss) Before Depreciation, Interest, Taxes and Amortization
   Total Interest Expense + Principal Debt Reductions

The interest coverage ratio is 13.57 and the debt service coverage ratio is 6.78 for FY2016.

Please refer to Note 5 to the financial statements for additional details regarding financing activities during fiscal years 2016 and 2015.

Pending litigation

The Port is in litigation with Guam YTK Corporation (YTK), a former tenant, regarding a lease agreement dated December 14, 2001. In 2012, YTK submitted its Claim against the Government of Guam. In 2013, the Superior Court of Guam issued a Decision and Order dismissing YTK's claims, which YTK appealed. In July 2014, the Supreme Court of Guam granted YTK's motion to compel arbitration. Arbitration began in 2016 and the arbitrators issued a decision in favor of YTK. The arbitrators awarded YTK: (1) Award amount of $12.7M; (2) Ten percent (10%) per annum on the unpaid balance of the Award amount; and (3) Attorneys' fees of $1.3M and costs of $138 thousand. In July 2016, the Port filed a Motion to Vacate Arbitration Award in Superior Court of Guam. Judge Sukola denied the Port's motion on December 29, 2016.

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

FISCAL YEAR 2017 OUTLOOK

The following are the courses of action that the Port aims to accomplish or complete in FY 2017:

5 Year Tariff Petition

In June 2015, the Port reengaged it Owner's Agent/Engineer to revisit, update and modify the current 5 Year Tariff Schedule that factored changes to the PMP and updated financial and volume information. In the September 7, 2016 Board Meeting, the Board of Directors approved and adopted a 5 Year Accelerated Tariff Petition Analysis (2017-2021) to pursue rate increases with the PUC. The Port published its proposed rate on September 12, 2016 and filed the Increase Tariff Petition on November 16, 2016.

PAG Docket 17-01, 5 Year Tariff Rate Petition is anticipated to be placed in the PUC Agenda in the March or April 2017 regular monthly meeting. If approved, management will implement rates effective June 1, 2017, or 30 days after PUC approval.

Bond Financing

PAG plans to issue a general Port revenue bond in 2017 to provide funds for the following capital projects under the 2013 Port Master Plan update and other projects identified by management to replace aging facilities.

- H-Warf local share
- New Administration Building
- Gulf Pier Repairs/Upgrades
- Waterline Replacement
- Warehouse I & Maintenance Warehouse Repairs/Upgrades

Facility Maintenance Fee Projects

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

- A/E Services for Wheel Stopper, Storm Drainage System Repair & Gate House Repair
- Concrete Storm Drain Channel System Upgrade
- Container Yard Water Line Valves
- Container Yard Asphalt Pavement Repairs
- Container Yard Stripping & Bumpers
- Canopy/Shelter for Maintenance

Port Security Grant Program (PSGP)

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

- Cyber Security Assessment to scan IT infrastructure for vulnerabilities, penetration test, and cyber resilience review with an estimated completion date of June 30, 2017.
- PAG was awarded 2015 PSGP for two projects: 1) procure and maintenance and sustainment contract for its CCTV and access control systems, and 2) install additional security lights at various strategic port locations, specifically 4 new light poles and fixtures adjacent to F6.

- PAG was recently awarded the 2016 PSGP for two projects: 1) procurement of additional cameras for Hagatna Marina, Agat Marina, and the Port, and 2) Phase III supplemental lighting project for industrial road, roadway heading to H-Wharf, and other strategic Port locations.

Other Marina and Harbor of Refuge Projects

- Agat Marina demolition of B Dock under the Department of Agriculture Sport Fish Restoration Program.
- Renovation of the Guam Harbor of Refuge-Architectural and Engineering Design including Environmental Study Phase for the moorings was completed on September 2015 under Boating Infrastructure Grant Program Tier1. U.S. Wildlife Fisheries Service requested additional site assessment be performed to the actual moorage system. Design of the pump-out system is scheduled to be completed in February 2017. Procurement and construction of pump out facility is anticipated to commence in 2017.

Service Life Extension (SLE) Program

The SLE Program was developed to address structural repair work at the Port's F-5 Wharf and marine repairs to F-3, F-4 and F-6 wharf. After obtaining approval from the Port's Board of Directors, the Authority engaged the Guam Economic Development Authority (GEDA) to begin soliciting the financing services on behalf of the Port to fund the SLE Program for $10 Million. In September 2012, GEDA issued the solicitation package for a $10 million loan to fund the SLE Program, upgrade the Financial Management System and acquisition of cargo handling equipment. The financing contact award took place in November 2012. The $10M loan documents were fully executed on April 3, 2014.

The solicitation process for the construction work for the SLE Program began on April 21, 2014 through an Invitation for Bid. The Public Utilities Commission approved the construction agreement in the meeting of July 31, 2014; thereby followed by contract execution on August 20, 2014. The Notice to Proceed construction work was issued on December 30, 2014 to take effect January 5, 2015 and anticipated completion within 360 calendar days (January 2016). A recent change order has extended construction to be completed in April 2016. PAG encountered questionable workmanship on construction that is being resolved. PAG anticipates closing out this project in 2017.

Terminal Operating System (TOS)

The Port Authority of Guam is striving to develop into the world-class container terminal of the Western Pacific Region. Along with the Port Modernization Project, the Terminal Operating System is a new system to replace Port's GTS system used in operations. The TOS will allow for automated invoicing and cargo and container tracking system to go live in October 2016. The TOS project is funded through loan proceeds and Port's funds.

H-Wharf

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

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

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

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

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in the report on the audit of financial statements which is dated January 29, 2016. That Discussion and Analysis explains in more detail major factors impacting the 2015 financial statements. A copy of that report can be obtained via the contact below.

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

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

Statements of Net Position
September 30, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
Current assets:		
Cash and cash equivalents - unrestricted	$ 30,241,527	$ 19,262,240
Cash and cash equivalents - restricted expendable	5,530,865	4,256,506
Total cash and cash equivalents	35,772,392	23,518,746
Accounts receivable, net of allowance for doubtful accounts of $551,948 and $921,673 in 2016 and 2015, respectively	4,892,405	7,294,906
Federal receivables	180,601	447,182
Prepaid expenses	62,315	18,219
Total current assets	40,907,713	31,279,053
Replacement parts inventories, net of allowance for obsolescence of $71,993 and $63,086 in 2016 and 2015, respectively	282,884	128,507
Depreciable property, plant and equipment, net	104,433,310	108,510,380
Nondepreciable property, plant and equipment	18,514,993	16,580,315
Total assets	164,138,900	156,498,255
Deferred outflows of resources from pension	5,292,446	4,451,753
Total assets and deferred outflows of resources	$ 169,431,346	$ 160,950,008
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Current portion of long-term bank debt	$ 1,788,527	$ 1,053,670
Accounts payable, trade and others	1,875,663	2,573,194
Security deposits and other payables	390,189	347,418
Accrued payroll and withholdings	665,854	552,260
Current portion of accrued annual leave	1,136,453	1,171,731
Unearned revenue	495,729	403,435
Total current liabilities	6,352,415	6,101,708
Long-term bank debt, net of current portion	18,044,897	17,331,417
Net pension liability	42,317,421	37,618,961
Accrued annual leave, net of current portion	401,958	284,899
Accrued sick leave	1,649,857	1,475,443
Total liabilities	68,766,548	62,812,428
Deferred inflows of resources from pension	-	4,565,083
Commitments and contingencies		
Net position:		
Net investment in capital assets	101,527,633	104,705,608
Restricted - expendable	5,530,865	4,256,506
Unrestricted	(6,393,700)	(15,389,617)
Total net position	100,664,798	93,572,497
Total liabilities, deferred inflows of resources and net position	$ 169,431,346	$ 160,950,008

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Cargo throughput charges	$ 31,921,115	$ 28,463,053
Equipment and space rental	8,753,079	8,563,093
Crane surcharge	6,284,894	5,845,721
Wharfage charges	4,930,170	4,616,731
Special services	225,560	263,111
Other operating income	92,951	918,820
	52,207,769	48,670,529
Recovery of (provision for) bad debts	341,007	(222,461)
	52,548,776	48,448,068
Operating expenses:		
Management and administration	9,149,189	7,145,137
Depreciation	6,144,649	4,817,356
Equipment maintenance	5,089,650	4,902,899
General expenses	4,788,404	3,522,646
Transportation services	4,548,089	3,980,080
Stevedoring services	3,585,891	3,023,547
COLA/supplemental annuities	3,030,245	2,790,239
Terminal services	2,439,778	1,809,869
Insurance	2,193,100	2,184,220
Facility maintenance	1,520,116	1,293,735
Utilities	1,511,229	1,714,357
Total operating expenses	44,000,340	37,184,085
Earnings from operations	8,548,436	11,263,983
Nonoperating (expenses) revenues:		
U.S. Government operating grants	793,913	96,741
Other income (expense), net	26,532	16,430
Interest (expense) income, net	(984,882)	(771,017)
Loss from disposal of property, plant and equipment	(2,670,887)	(125,442)
Total nonoperating expenses, net	(2,835,324)	(783,288)
Income before capital contributions	5,713,112	10,480,695
Contributed capital:		
U.S. Government grants	1,379,189	51,476,618
Increase in net position	7,092,301	61,957,313
Net position at beginning of year	93,572,497	31,615,184
Net position at end of year	$ 100,664,798	$ 93,572,497

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	$ 55,043,571	$ 49,089,964
Cash payments to suppliers for goods and services	(12,210,631)	(11,545,521)
Cash payments to employees for services and benefits	(26,835,820)	(25,690,981)
Net cash provided by operating activities	15,997,120	11,853,462
Cash flows from investing activity - interest received	68,145	92,738
Cash flows from capital and related financing activities:		
Capital grants received	132,370	3,066,081
Proceeds from long-term bank debt	2,503,530	5,229,264
Repayment of long-term bank debt	(1,055,193)	(792,001)
Interest paid	(1,053,027)	(863,755)
Purchase of property, plant and equipment	(5,159,744)	(10,244,050)
Net cash used in capital and related financing activities	(4,632,064)	(3,604,461)
Cash flows from non-capital related financing activities:		
Operating grants received	793,913	96,741
Other non-capital activities	26,532	16,430
Cash provided by non-capital related financing activities	820,445	113,171
Net increase in cash and cash equivalents	12,253,646	8,454,910
Cash and cash equivalents at beginning of year	23,518,746	15,063,836
Cash and cash equivalents at end of year	$ 35,772,392	$ 23,518,746

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued
Years Ended September 30, 2016 and 2015

	2016	2015
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	$ 8,548,436	$ 11,263,983
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	6,144,649	4,817,356
(Recovery of) provision for bad debts	(341,007)	222,461
Pension recovery	(707,316)	(5,306,422)
Changes in operating assets and liabilities:		
Accounts receivable, net	2,743,508	323,043
Prepaid expenses	(44,096)	1,906
Replacement parts inventories, net	(154,377)	(17,712)
Accounts payable, trade and others	(697,531)	114,231
Security deposits and other payables	42,771	31,380
Accrued payroll and withholdings	113,594	118,082
Accrued annual leave	81,781	43,973
Unearned revenue	92,294	96,392
Accrued sick leave	174,414	144,789
Net cash provided by operating activities	$ 15,997,120	$ 11,853,462

Supplemental information of noncash activity:
In 2016 and 2015, the Authority acquired $1.5 million and $48.2 million, respectively, of capital assets through federal grants.

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

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

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.

On July 14, 2009, Public Law 30-52 placed the Authority under the oversight of the Public Utilities Commission of Guam (PUC). Because of the rate making process, certain differences may arise in the application of accounting principles generally accepted in the United States of America between regulated and non-regulated enterprises. Such differences mainly concern the time at which various items enter into the determination of net earnings in order to follow the principle of matching costs and revenues.

Basis of Accounting

The Authority utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Operating and Nonoperating Revenues and Expenses

The Authority's revenues are derived primarily from providing various services to major shipping line customers under an approved tariff rate schedule and are reported as operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. Capital grants, financing or investing related transactions are reported as non-operating revenues and expenses. All expenses related to operating the Authority plus the Authority's share of COLA/supplemental annuities to retirees approved by the Guam Legislature, are reported as operating expenses. Capital grants and other capital contributions from governmental agencies are recorded as net position when earned. Operating grants are recorded as revenue when earned.

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

Net Position

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

Net investment in capital assets:

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

Restricted:

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

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

All of the Authority's restricted net position at September 30, 2016 and 2015 is expendable.

Unrestricted:

Net position that is not subject to externally imposed stipulations. Unrestricted net position 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.

Cash and Cash Equivalents

For purposes of the statements of net position and of cash flows, cash and cash equivalents is defined as cash on hand and deposits in banks and time certificates of deposit with initial maturities of three months or less. Restricted cash is considered to be cash and cash equivalents but is separately classified in the statement of net position.

Accounts Receivable and Allowance for Doubtful Accounts

Substantially all of the Authority's accounts receivable as of September 30, 2016 and 2015 are due from international steamship lines/agents which are located or operating on Guam.

The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 30 days from the date of billing. As of September 30, 2016 and 2015, receivables that are more than thirty days past due totaled $1,244,328 and $1,849,680, respectively. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Uncollectible accounts are written-off against the allowance or are charged to expense in the period the Authority deems the accounts to be uncollectible.

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

Replacement Parts Inventories

Replacement parts inventories consist of spare parts and supplies stated at average cost and are charged to expense as used. Due to the nature and availability of parts necessary for operations, inventory includes items which often are not used within one year. Thus, replacement parts inventories are classified as non-current assets.

Property, Plant and Equipment and Depreciation

Land is recorded at its appraised value on the date of transfer from 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 buildings and equipment). Current policy is to capitalize individual purchases over $1,000 with useful lives exceeding one year. Normal maintenance and repairs are charged to operating expense as incurred; expenditures for major additions, improvements, infrastructure and replacements are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal with the resulting gain or loss credited or charged to nonoperating revenue or expense, respectively.

Compensated Absences

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

In accordance with Public Law No. 27-5 and Public Law No. 28-68, employee vacation accrual rates are credited at either 104, 156 or 208 hours per year, depending upon 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 allows employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, to carry over their excess and to use the excess amount of leave prior to retirement or termination from service or they may credit not more than 100 excess hours to sick leave. However, at retirement, lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours is not allowed.

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.

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

Pensions

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Taxes

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

Risk Management

The Authority has commercial insurance coverage for directors' and officers' liability, comprehensive liability, employee dishonesty and forgery, money and securities loss, and automobile injury and property damage. Worker's compensation is managed through the local Department of Labor under the Government of Guam Special Fund (Special Fund); however, the Authority reimburses the Special Fund for the costs of claims. The Authority also has commercial property insurance coverage for 100% of the total net book value of property, plant and equipment, subject to deductibles. The Authority incurred no casualty losses in excess of insurance coverage during the years ended September 30, 2016, 2015 and 2014.

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

New Accounting Standards

During the year ended September 30, 2016, the Authority implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

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

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

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

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has not determined the financial impact but anticipates that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Reclassifications

Certain items in the 2015 financial statements have been reclassified to correspond with the 2016 financial statement presentation.

(2) Deposits

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

GASB Statement No. 40 requires disclosures for deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2016 and 2015, the carrying amount of the Authority's cash and cash equivalents totaled $35,772,392 and $23,518,746, respectively, and the corresponding bank balances were $35,590,533 and $23,871,436, respectively, all of which were maintained in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2016 and 2015, bank deposits in the amount of $500,000 were FDIC insured for both years. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. 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.

(3) Property, Plant and Equipment

A summary of changes in property, plant and equipment for the years ended September 30, 2016 and 2015 is as follows:

	Beginning Balance October 1, 2015	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2016
Depreciable:				
Buildings	$ 130,368,940	$ 3,349,745	$ (2,429,141)	$ 131,289,544
Equipment	32,902,231	2,278,027	(9,714,327)	25,465,931
	163,271,171	5,627,772	(12,143,468)	156,755,475
Less accumulated depreciation	(54,760,791)	(6,144,649)	8,583,275	(52,322,165)
	108,510,380	(516,877)	(3,560,193)	104,433,310
Non-depreciable:				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	13,017,315	7,453,401	(5,518,723)	14,951,993
	16,580,315	7,453,401	(5,518,723)	18,514,993
Total	$ 125,090,695	$ 6,936,524	$ (9,078,916)	$ 122,948,303

	Beginning Balance October 1, 2014	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2015
Depreciable:				
Buildings	$ 74,082,836	$ 56,307,316	$ (21,212)	$ 130,368,940
Equipment	31,821,479	1,882,058	(801,306)	32,902,231
	105,904,315	58,189,374	(822,518)	163,271,171
Less accumulated depreciation	(50,636,400)	(4,817,356)	692,965	(54,760,791)
	55,267,915	53,372,018	(129,553)	108,510,380
Non-depreciable:				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	12,731,223	6,471,378	(6,185,286)	13,017,315
	16,294,223	6,471,378	(6,185,286)	16,580,315
Total	$ 71,562,138	$ 59,843,396	$ (6,314,839)	$ 125,090,695

(4) Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

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

(4) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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

Plan Membership: As of September 30, 2015, the most recent measurement date, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,197
Terminated employees entitled to benefits but not yet receiving them	4,701
Current members	2,460
	14,358

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or $6,000, whichever is greater. Cost-of-living adjustments and other supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature, but are provided outside of the Plan.

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or with 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 25 years of service at any age.

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or upon completion of 30 years of service at any age.

Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

(4) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Contributions and Funding Policy: Contribution requirements of participating employers and active members are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example the September 30, 2014 actuarial valuation was used for determining the year ended September 30, 2016 statutory contributions. Member contributions are required at 9.54% of base pay (9.55% in 2015).

As a result of actuarial valuations performed as of September 30, 2014, 2013, and 2012, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2016, 2015 and 2014, respectively, have been determined as follows:

	2016	2015	2014
Normal costs (% of DB Plan payroll)	15.86%	15.92%	16.61%
Employee contributions (DB Plan employees)	9.54%	9.55%	9.50%
Employer portion of normal costs (% of DB Plan payroll)	6.32%	6.37%	7.11%
Employer portion of normal costs (% of total payroll)	1.94%	2.05%	2.39%
Unfunded liability cost (% of total payroll)	22.42%	24.09%	24.01%
Government contribution as a % of total payroll	24.36%	26.14%	26.40%
Statutory contribution rates as a % of DB Plan payroll:			
Employer	28.16%	29.85%	30.03%
Employee	9.54%	9.55%	9.50%

The Authority's contributions to the DB Plan for the years ended September 30, 2016, 2015 and 2014 totaled $1,343,278, $1,484,519, and $1,523,378, respectively, which are equal to the required contributions for those years.

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

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	16.58 years
Asset Valuation Method:	3-year smoothed market value

(4) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Expected Rate of Return:	7.00%
Discount Rate:	7.00%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

Discount Rate: The total pension liability is calculated using a discount rate of 7.0% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate 6.0%	Current Discount Rate 7.0%	1% Increase in Discount Rate 8.0%
Net Pension Liability	$ 51,418,408	$ 42,317,421	$ 34,488,796

(4) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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

Pension Liability: At September 30, 2016 and 2015, the Authority reported a liability of $42,317,421 and $37,618,961, respectively, for its proportionate share of the net pension liability. The Authority's proportion of the net pension liability was based on projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2016 and 2015, the Authority's proportion of the GovGuam overall liability was 3.09% and 3.02%, respectively.

Pension Expense: For the years ended September 30, 2016 and 2015, the Authority recognized pension expense (recovery) of $3,291,147 and $(843,435), respectively.

Deferred Outflows and Inflows of Resources: At September 30, 2016 and 2015, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 530,712	$ -	$ 279,095	$ -
Net difference between projected and actual earnings on pension plan investments	478,202	-	-	2,863,229
Contributions subsequent to the measurement date	4,017,046	-	4,172,658	-
Changes in proportion and difference between Authority contributions and proportionate share of contributions	266,486	-	-	1,701,854
	$ 5,292,446	$ -	$ 4,451,753	$ 4,565,083

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2016 will be recognized in pension expense as follows:

Year Ending September 30,	
2017	$ 537,697
2018	$ (251,514)
2019	$ 349,962
2020	$ 639,255

(4) Employees' Retirement Plan, Continued

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.

Statutory employer contributions for the DCRS plan for the years ended September 30, 2016 and 2015, 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 are always 100% vested in their own contributions, plus earnings thereon. Upon completion of five years of governmental service, as defined, DCRS members are 100% vested in employer contributions plus any earnings thereon.

The Authority's contributions for the DCRS plan payroll for the years ended September 30, 2016, 2015 and 2014 were $3,251,007, $3,250,299 and $3,071,597, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, $2,673,768, $2,688,140 and $2,539,399 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2016, 2015 and 2014, respectively.

Public Law 26-86 allows members of the DCRS plan to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The Authority has accrued an estimated liability of $1,649,857, $1,475,443 and $1,330,654 at September 30, 2016, 2015 and 2014, 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.

(4) Employees' Retirement Plan, Continued

Other Post-Employment Benefits, Continued

For the years ended September 30, 2016, 2015 and 2014, the Authority reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	2016	2015	2014
Medical and dental	$ 1,878,355	$ 1,624,706	$ 1,198,985
Supplemental benefits	1,092,210	1,108,560	1,073,756
Life insurance	59,680	56,973	47,680
	$ 3,030,245	$ 2,790,239	$ 2,320,421

(5) Long-Term Liabilities

Summary

Long-term liabilities of the Authority consist of annual leave and sick leave payable to its employees, net pension liability and long-term bank debt. Changes in long-term liabilities for the years ended September 30, 2016 and 2015 are as follows:

	Outstanding at September 30, 2015	Increases	Decreases	Outstanding at September 30, 2016	Current	Noncurrent
Accrued annual leave	$ 1,456,630	$ 1,216,027	$ 1,134,246	$ 1,538,411	$ 1,136,453	$ 401,958
Accrued sick leave	1,475,443	677,423	503,009	1,649,857	-	1,649,857
Long-term bank debt	18,385,087	2,503,530	1,055,193	19,833,424	1,788,527	18,044,897
Net pension liability	37,618,961	4,698,460	-	42,317,421	-	42,317,421
	$ 58,936,121	$ 9,095,440	$ 2,692,448	$ 65,339,113	$ 2,924,980	$ 62,414,133

	Outstanding at September 30, 2014	Increases	Decreases	Outstanding at September 30, 2015	Current	Noncurrent
Accrued annual leave	$ 1,412,657	$ 1,192,248	$ 1,148,275	$ 1,456,630	$ 1,171,731	$ 284,899
Accrued sick leave	1,330,654	144,789	-	1,475,443	-	1,475,443
Long-term bank debt	13,947,824	5,229,264	792,001	18,385,087	1,053,670	17,331,417
Net pension liability	44,444,980	-	6,826,019	37,618,961	-	37,618,961
	$ 61,136,115	$ 6,566,301	$ 8,766,295	$ 58,936,121	$ 2,225,401	$ 56,710,720

(5) Long-Term Liabilities, Continued

Long-term Bank Debt

Long-term debt consists of the following at September 30, 2016 and 2015:

	2016	2015
• $2,000,000 loan obtained from United States Department of Agriculture (USDA) on July 15, 2015. The loan bears interest at 3.625% and is payable in monthly installments of $27,000 in principal and interest over seven years. Proceeds of the loan will be used to fund the acquisition of cargo handling equipment, which is also pledged as collateral for the loan.	$ 1,700,752	$ 1,958,020
• Two loans not to exceed a total of $10,000,000 obtained from Bank of Guam on April 3, 2014. One loan (SLE Loan) was used for the purpose of funding the cost of service life extension repairs to berths or wharves. The other loan (Purchase Loan) was used for funding the cost of software acquisition for the purpose of upgrading the financial management system. Each loan bears interest at 2.55% above the Federal Home Loan Bank of Seattle Long Term 5-year amortizing fixed rate in effect from time to time or 3.75% whichever is greater. The interest rate shall be adjusted on the fifth anniversary. At September 30, 2016 and 2015, the SLE and Purchase Loans bear interest at 4.14% and 3.94%, respectively. Each loan is payable in ten years from drawdown dates with only interest due for the first two years. The outstanding principal balances of the SLE and Purchase Loans as of September 30, 2016 are $4,732,794 and $1,000,000, respectively. The outstanding principal balances of the SLE and Purchase Loans as of September 30, 2015 are $2,391,861 and $837,403, respectively.	5,732,794	3,229,264
• $12,000,000 loan obtained from ANZ Guam, Inc. (ANZ) on December 20, 2012, guaranteed by USDA. The term loan bears interest at 3.42% above the Federal Home Loan Bank of Seattle's 15-year amortizing rate at the time of funding (5.94% at September 30, 2016 and 2015) and is payable in monthly installments of $101,427 in principal and interest over fifteen years. Proceeds of the loan were used to finance the acquisition of the used cranes identified as Port of Los Angeles Cranes and Gantry Cranes (collectively the "cranes") which are also pledged as collateral for the loan.	9,925,985	10,524,501

(5) Long-Term Liabilities, Continued

Long-term Bank Debt, Continued

	2016	2015
• $3,500,000 loan obtained from ANZ on October 22, 2010, representing a portion of the $4,500,000 USDA Guaranteed Term Loan. The term loan bears interest at 3% above the Federal Home Loan Bank of Seattle's 15-year amortizing fixed advanced rate at the time of funding (6.18% at September 30, 2016 and 2015) and is payable in monthly installments of $30,049 in principal and interest over fifteen years. Proceeds of the loan were used to reimburse the Authority for the acquisition of four top lifters and ten terminal yard contractors which are also pledged as collateral for the loan.	2,473,893	2,673,302
	19,833,424	18,385,087
Less current portion	1,788,527	1,053,670
	$ 18,044,897	$ 17,331,417

As of September 30, 2016, future maturities of long-term bank debt are as follows:

Year Ending September 30,	Principal	Interest	Total Debt Service
2017	$ 1,788,527	$ 991,584	$ 2,780,111
2018	2,014,395	915,608	2,930,003
2019	2,116,040	813,963	2,930,003
2020	2,221,129	708,874	2,930,003
2021	2,335,638	594,365	2,930,003
2022 through 2026	7,897,299	1,459,094	9,356,393
2027 through 2028	1,460,396	62,961	1,523,357
	$ 19,833,424	$ 5,546,449	$ 25,379,873

Cargo throughput and wharfage revenues totaling $36,851,285 and $33,079,784 for the years ended September 30, 2016 and 2015, respectively, have been pledged as security for the SLE and Purchase Loans. The SLE Loan is also secured by the facility maintenance fee revenues which are deposited in a special fund with a balance of $2,708,032 and $2,368,236 as of September 30, 2016 and 2015, respectively.

The Authority is required to maintain a reserve account at the sum of principal and interest due and the aggregate amount of payments to become due in the next 90 days. The balance in the reserve account at September 30, 2016 and 2015 is $322,756 and $319,660, respectively.

(6) Major Customers

For the years ended September 30, 2016 and 2015, the Authority has two and three major shipping agency customers, respectively, that collectively accounted for 65.43% and 77.18% of total operating revenues, respectively. The Authority has a high concentration of credit risk due to the limited number of entities comprising its customer base.

(7) 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 on noncancelable operating leases for the five succeeding fiscal years and thereafter, are as follows:

Year Ending September 30,	Amount
2017	$ 1,122,057
2018	1,122,057
2019	1,122,057
2020	921,339
2021	314,544
Thereafter	1,945,006
	$ 6,547,060

The Authority also leases equipment and space to tenants on a month-to-month basis.

Total equipment and lease space revenue from tenants for all rentals totaled $8,753,079 and $8,563,093 for the years ended September 30, 2016 and 2015, respectively.

(8) Commitments and Contingencies

Port Modernization Plan

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

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

(8) Commitments and Contingencies, Continued

Port Modernization Plan, Continued

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

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

In November 2013, the Plan was updated to provide a comprehensive view of the Authority's current condition, identify elements of continuous improvement and sustainability, and scale down the components of Phase I-A of the Plan. Changes to the Plan were signed into law through Public Law 32-155 on May 21, 2014.

Appropriation from the USDOD:

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

The Authority segregated the construction funded by the $50,000,000 USDOD appropriation into three phases. As of September 30, 2015, all three phases have been completed and capitalized with a total cost of $54,000,000; $48,200,000 of which came from the USDOD appropriation and $5,800,000 relates to consultants' charges. A dashboard project expenditure summary was provided to the Authority by MARAD and was used as the basis for recording $48,200,000 of capital assets. In 2016, the Authority received an updated dashboard project expenditure summary from MARAD showing a revised total cost of $47,300,000. An adjustment of $900,000 to capital assets was made to reflect the updated project cost. The Authority expects to receive the close-out documents from MARAD and changes in such expenditure details, if any, will be accounted for prospectively in the financial statements.

The Authority requested assistance from MARAD to reprogram the remaining $2,700,000 of USDOD funds for the acquisition of equipment.

Appropriations from the USDA:

The appropriations from USDA were awarded on October 22, 2010. On the same date, the Authority received $3,500,000 of the guaranteed term loan with ANZ (see note 5). The Authority anticipates that it will not utilize the unused portion of the loan.

In 2011, due to changes in certain factors relating to the military buildup and cargo forecast, the Authority will not be able to proceed with the $25,000,000 direct loan.

(8) Commitments and Contingencies, Continued

Port Modernization Plan, Continued

Appropriations from the USDA, Continued:

In 2012, the Authority utilized $12,000,000 of the Community Facilities Guaranteed loan with ANZ for the acquisition of cranes and $2,000,000 in 2015 for the acquisition of cargo handling equipment (see note 5). The remaining loan will fund the acquisition of other cargo handling and maintenance equipment.

Government of Guam General Fund

In March 2011, the Authority received a $12,250,000 invoice from the Government of Guam's Department of Administration (DOA) representing an annual assessment of $875,000 for each of the fiscal years 1998 to 2011 pursuant to 5 GCA Chapter 22 Section 22421, *Transfer of Autonomous Agency Revenues To Autonomous Agency Collections Fund*. In May 2011, the Authority requested DOA further review the assessment as the Authority believes that it does not owe the entire $12,250,000 based on previous transfers in 1994 and 1997 of $500,000 and $3,500,000 to the General fund and to the Government of Guam Autonomous Agency Infrastructure Collection Fund (AAICF), respectively. The Authority also asserts that it funds certain government services provided by the Guam Customs and Quarantine Agency, the Guam Environmental Protection Agency, the Guam Police Department and the Guam Fire Department through ongoing operations at the Port; contributes to GEDA and Port's Base Realignment and Closure Commission; and, will fund the Tri-Star Pipeline and water line projects in the future. Further, the Authority understands that it is only required to transfer amounts to the AAICF when there is an operating surplus.

In September 2011, the Authority accrued $700,000 representing its liability towards the AAICF funding based on its interpretation of the law. In 2015, the accrual was reversed and recognized as other operating income.

Lawsuit and Claims

The Authority is engaged in litigation with Guam YTK Corporation (YTK), a former tenant, involving a lease agreement dated December 14, 2001. In 2016, the case was submitted to arbitration as required by the terms of the lease agreement and in April 2016, the Arbitrators issued a decision awarding YTK $14 million. The Authority filed an appeal in the Superior Court of Guam to deny the award to YTK. In December 2016, the Superior Court of Guam issued a decision denying the Authority's appeal. Management maintains its position that the lease is not legal and will appeal the decision to the Supreme Court of Guam. No provision has been recorded for the litigation in the financial statements.

The Authority is a defendant in other 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 adversely affect the Authority's financial statements, it is the opinion of management, after consulting with its legal counsel, that the ultimate disposition of such suits and proceedings will not have a material adverse effect on the Authority's financial statements, and therefore no provision has been recorded for these claims in the 2016 and 2015 financial statements.

(8) Commitments and Contingencies, Continued

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. The remaining estimated accrued merit bonus as of September 30, 2016 and 2015 is $54,000.

Contract Commitments

As of September 30, 2016, the Authority has various on-going construction contracts with a total contract price of $10 million, of which $8.7 million has been recorded as construction work-in-progress.

Purchase Commitments

As of September 30, 2016, the Authority has outstanding purchase orders for various equipment purchases totaling $4.4 million.

(9) Crane Surcharge

Pursuant to a PUC rate order, the Authority charges a crane surcharge of $125 for each loaded import and export container and first carriers fully loaded transshipment containers handled at the Port. In addition, the rate order required the Authority to assess a $5 per ton surcharge on break bulk cargo, capped at $105 per item.

The rate order also required the Authority to deposit 9.5% of surcharge revenues into a crane replacement sinking fund, which is restricted for the future acquisition of cranes, loan payments on crane debt service or extraordinary corrective maintenance events. The balance in the reserve account at September 30, 2016 and 2015 is $2,500,077 and $1,568,610, respectively.

The Authority recorded $6,284,894 and $5,845,721 of crane surcharge revenue for the years ended September 30, 2016 and 2015, respectively.

(10) Restricted Net Position

At September 30, 2016 and 2015, net position is restricted for the following purposes:

	2016	2015
Future crane acquisition, crane debt service or extraordinary crane maintenance	$ 2,500,077	$ 1,568,610
Debt service	322,756	319,660
Collateral for the SLE loan	2,708,032	2,368,236
	$ 5,530,865	$ 4,256,506

(11) Subsequent Events

In October 2016, Bill 2-33 was passed, enacting two new government retirement plans; the DB Lite plan and the Guam Retirement Security Plan. Beginning 2018, the Security Plan and Defined Contribution plan are to become the primary retirement systems for all new hires.

OTHER FINANCIAL INFORMATION

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

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

	2016	2015	2014
Total Government of Guam net pension liability	$ 1,370,173,934	$ 1,246,306,754	$ 1,303,304,636
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	$ 42,317,421	$ 37,618,961	$ 44,444,980
PAG's proportion of the net pension liability	3.09%	3.02%	3.41%
PAG's covered-employee payroll**	$ 15,763,970	$ 15,246,135	$ 15,719,810
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	268.44%	246.74%	282.73%
Plan fiduciary net position as a percentage of the total pension liability	53.50%	56.60%	53.94%

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

See Accompanying Independent Auditors' Report.

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

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

	2016	2015	2014
Actuarially determined contribution	$ 4,164,744	$ 4,071,265	$ 4,218,951
Contribution in relation to the actuarially determined contribution	4,172,659	4,062,777	4,214,569
Contribution (excess) deficiency	$ (7,915)	$ 8,488	$ 4,382
PAG's covered-employee payroll **	$ 15,763,970	$ 15,246,135	$ 15,719,810
Contribution as a percentage of covered-employee payroll	26.47%	26.65%	26.81%

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

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PORT AUTHORITY OF GUAM
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Details of Operating Expenses
Years Ended September 30, 2016 and 2015

	2016	2015
Management and Administration:		
Management:		
Salaries and wages - regular	$ 476,565	$ 414,527
Pension cost (recovery)	101,458	(29,351)
Annual leave	45,177	39,917
Benefits - Government contribution	23,141	22,709
Fringe benefits	9,298	11,422
Salaries and wages - other	4,007	439
Office supplies	1,366	1,680
Salaries and wages - overtime	-	90
Miscellaneous	20,351	27,288
Total management	681,363	488,721
Administration:		
Salaries and wages - regular	5,269,253	4,781,432
Pension cost (recovery)	1,072,488	(189,527)
Annual leave	432,026	409,791
Salaries and wages - overtime	375,108	407,426
Benefits - Government contribution	324,397	303,809
Fringe benefits	306,260	302,296
Repairs and maintenance	158,149	160,629
Salaries and wages - other	109,069	99,049
Furnishings and equipment	81,436	51,642
Operational supplies	41,489	55,796
Office supplies	31,032	30,263
Miscellaneous	267,119	243,810
Total administration	8,467,826	6,656,416
Total management and administration	$ 9,149,189	$ 7,145,137

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Details of Operating Expenses, Continued
Years Ended September 30, 2016 and 2015

	2016	2015
Equipment Maintenance:		
Salaries and wages - regular	$ 2,312,741	$ 2,286,132
Repairs and maintenance	754,675	1,171,967
Pension cost (recovery)	513,067	(154,345)
Operational supplies	458,744	479,236
Salaries and wages - overtime	300,850	291,860
Salaries and wages - other	195,818	258,880
Annual leave	192,090	198,306
Fringe benefits	179,290	187,866
Benefits - Government contribution	142,946	144,967
Contractual	22,525	20,079
Furnishings and equipment	14,977	10,388
Office supplies	1,903	1,456
Miscellaneous	24	6,107
Total equipment maintenance	$ 5,089,650	$ 4,902,899
Transportation Services:		
Salaries and wages - regular	$ 2,565,230	$ 2,548,914
Pension cost (recovery)	616,315	(138,248)
Salaries and wages - overtime	416,472	531,789
Annual leave	203,913	207,022
Gas, oil and diesel	200,244	301,355
Fringe benefits	192,338	202,897
Salaries and wages - other	183,085	150,474
Benefits - Government contribution	166,388	168,375
Furnishings and equipment	1,646	1,813
Operational supplies	1,435	2,014
Office supplies	1,023	999
Miscellaneous	-	2,676
Total transportation services	$ 4,548,089	$ 3,980,080

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Details of Operating Expenses, Continued
Years Ended September 30, 2016 and 2015

	2016	2015
Stevedoring Services:		
Salaries and wages - regular	$ 2,184,178	$ 2,154,200
Pension cost (recovery)	468,977	(176,013)
Salaries and wages - overtime	253,913	358,615
Fringe benefits	186,099	191,563
Annual leave	168,284	169,957
Salaries and wages - other	157,087	141,053
Benefits - Government contribution	145,939	146,438
Operational supplies	20,385	37,354
Office supplies	1,029	380
Total stevedoring services	$ 3,585,891	$ 3,023,547
Facility Maintenance:		
Salaries and wages - regular	$ 859,901	$ 827,835
Pension cost (recovery)	192,112	(68,727)
Operational supplies	134,442	120,065
Salaries and wages - overtime	114,532	173,327
Annual leave	66,973	70,241
Fringe benefits	64,358	67,689
Benefits - Government contribution	58,310	57,491
Salaries and wages - other	14,124	14,234
Repairs and maintenance	8,646	11,144
Furnishings and equipment	5,889	14,251
Office supplies	767	274
Miscellaneous	62	5,911
Total facility maintenance	$ 1,520,116	$ 1,293,735

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Details of Operating Expenses, Continued
Years Ended September 30, 2016 and 2015

	2016	2015
Terminal Services:		
Salaries and wages - regular	$ 1,500,247	$ 1,303,829
Pension cost (recovery)	326,730	(87,224)
Salaries and wages - overtime	206,975	227,033
Fringe benefits	134,810	118,299
Annual leave	111,176	100,472
Benefits - Government contribution	99,285	88,449
Salaries and wages - other	49,066	45,409
Office supplies	6,127	11,916
Operational supplies	5,362	1,686
Total terminal services	$ 2,439,778	$ 1,809,869
General Expenses:		
Professional services	$ 1,978,138	$ 1,528,301
Managers' fee	1,003,386	803,486
Legal counsel	857,364	757,098
Maintenance	365,427	180,190
Waste removal	112,883	94,294
Workmen's compensation injury allowance	105,477	65,893
Agency fee	52,163	48,485
Audit	45,000	42,000
Claims and damages	17,022	-
Port incentive award	16,196	-
Inventory adjustment	7,226	(17,979)
Board of Directors expense	4,229	4,233
Miscellaneous	223,893	16,645
Total general expenses	$ 4,788,404	$ 3,522,646

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Summary of Salaries and Wages
Years Ended September 30, 2016 and 2015

	2016	2015
Salaries and wages - regular	$ 15,168,115	$ 14,316,869
Benefits - Government contribution	960,407	932,238
Salaries and wages - overtime	1,667,850	1,990,140
Fringe benefits	1,072,452	1,082,032
Salaries and wages - other	712,255	709,538
	$ 19,581,079	$ 19,030,817

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Employees by Department
Years Ended September 30, 2016 and 2015

	2016	2015
Department:		
Management and administration	108	109
Equipment maintenance	47	48
Transportation services	66	69
Stevedoring services	57	63
Facility maintenance	27	22
Terminal services	39	37
	344	348

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