

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2006 AND 2005

INDEPENDENT AUDITORS' REPORT

Board of Directors
Port Authority of Guam:

We have audited the accompanying statements of net assets of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The supplementary information included in Schedule 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2007, on our consideration of the Port Authority of Guam's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP
January 12, 2007

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Management's Discussion and Analysis
September 30, 2006 and 2005

Introduction

The following Management's Discussion and Analysis of the performance and activities of the Jose D. Leon Guerrero Commercial Port (the "Authority") provides an introduction and understanding of the financial statements of the Port for the fiscal years ended September 30, 2006 and 2005. This management's discussion and analysis has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes, which follow this section.

The Port Authority of Guam was organized in March 1950 as a division of the Department of Commerce within the Government of Guam. In 1966, the Commercial Port was established as a separate department of the Government of Guam and in October 1975, by Public Law 13-87, the Commercial Port was renamed the Port Authority of Guam, and reestablished as a public corporation and autonomous agency of the government. The public law permits the Authority to provide for the needs of ocean commerce, shipping, recreational and commercial boating and navigation of the Territory of Guam. 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.

The Authority operates the only commercial seaport in the Territory and, as the primary seaport in Micronesia, serves as a transshipment point for the entire Western Pacific region. It operates the largest U.S. deepwater port in the region and currently handles about 2 million tons of cargo a year. The Authority owns 5 cargo-handling piers along with two fuel piers, three marinas and a harbor of refuge. The cost for operations and capital improvements are funded largely from the Authority's own revenues.

The Authority is organized into three operating divisions (Stevedoring, Terminal and Transportation) and two maintenance divisions (Equipment Maintenance and Facility Maintenance). These divisions are assisted by twelve support divisions (Port Police, Harbor Master, Safety, Finance, Human Resources, Commercial, Engineering, Procurement and Supply, Marketing, Planning, Information Technology and General Administration).

Overview of the Financial Statements and Analysis

The discussion and analysis provides an overview of the Authority's financial activities during the fiscal years ending September 30, 2006 and 2005. Management, in addition to this analysis, is responsible for the preparation of the accompanying financial statements. The basic financial statements include the following: the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows, plus Notes to the Financial Statements.

The MD&A is intended to aid the reader in interpreting the Authority's relative financial position as of the above referenced dates as well as gauging performance from one period to the next. Condensed key financial, as well as non-financial information will be highlighted for the reader.

The Authority, a proprietary fund, prepares the basic financial statements on the accrual basis in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board. Revenues are recognized when earned, not when received, and expenses are recognized when incurred, not when paid. Capital assets are capitalized and depreciated, with the exception of land, over their useful lives.

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Financial Highlights and Analysis

To sum up the whole financial reports, the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows are one appraisal of an organization's overall financial health and value. Distinctively, the Statement of Net Assets is a view of the Authority's financial value while the other two depict the movement of key elements from one period to the next, with a specific focus on the Authority's net assets and cash and cash equivalents.

Condensed Statements of Net Assets

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|-----------------------------------|---------------------|---------------------|----------------------|
| ASSETS | | | |
| Current and other assets | \$19,894,901 | \$20,755,889 | \$ 18,720,588 |
| Capital assets | <u>42,562,936</u> | <u>42,692,538</u> | <u>42,324,090</u> |
| Total assets | <u>\$62,457,837</u> | <u>\$63,448,427</u> | <u>\$ 61,044,678</u> |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities | \$ 7,857,862 | \$11,671,470 | \$ 11,377,905 |
| Other noncurrent liabilities | <u>6,290,793</u> | <u>5,004,195</u> | <u>3,382,627</u> |
| Total liabilities | <u>14,148,655</u> | <u>16,675,665</u> | <u>14,760,532</u> |
| NET ASSETS | | | |
| Invested in capital assets | 42,562,936 | 42,692,538 | 42,324,090 |
| Unrestricted | <u>5,746,246</u> | <u>4,080,224</u> | <u>3,960,056</u> |
| Total net assets | <u>48,309,182</u> | <u>46,772,762</u> | <u>46,284,146</u> |
| | <u>\$62,457,837</u> | <u>\$63,448,427</u> | <u>\$61,044,678</u> |

The statements of net assets present the financial position of the Authority at the end of the fiscal year. The statements include all assets and liabilities of the fund. Net assets, the difference between total assets and total liabilities, are an indicator of the current fiscal health of the organization and the enterprise's financial position over time.

Assets exceeded liabilities by \$46.8 million as of September 30, 2005, a \$500 thousand increase over total net assets as of fiscal year 2004. Of this amount, \$42.7 million is invested in capital assets and \$4.1 million is unrestricted. Assets exceeded liabilities by \$48.3 million as of September 30, 2006, a \$1.6 million increase over total net assets of fiscal year 2005. For fiscal year 2006, current assets decreased by 4% compared to fiscal year 2005 due to a combination of decrease in cash by 1%, accounts receivable by 20% and inventory by 14%. The accounts receivable in FY 2006 has improved compared to FY 2005. The customer aging report as of September 30, 2006 was categorized as follows: Current and less than 60 days- 83%, 61 to 90 days- less than 1% and accounts over 90 days- 16%. The delinquent accounts of over 90 days decreased by 3% compared to the delinquent accounts in FY 2005 of more than 19%. Inventory stock items in FY 2006 are less than the stock items in fiscal year 2005 due to budgetary controls.

The Authority's current liabilities increased from \$11.4 million in FY 2004 to \$11.7 million in FY 2005, while in FY 2006, they decreased to \$7.8 million, a \$3.9 million or 33% reduction. The primary reason

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for this decrease is the reduction of accrued earthquake and typhoon cost. The reduction was due to the following reasons: completion of F1 Pier Repair - \$2.1 million, Aesthetic repairs of Port buildings and warehouses – \$405 thousand, Agat Marina Repairs - \$111 thousand, and a \$3.2 million write down of the accrued earthquake and the typhoon liabilities due to reductions in estimated costs of repairs. Other non current liabilities increased from \$3.4 million in 2004 to \$5 million in FY 2005 and increased again to \$6.3 million in FY 2006, a \$1.3 million or 26% increase. The increases of non-current liability accounts at September 30, 2006 compared to the prior fiscal year are as follows: accrued annual leave, long term - 49%, accrued sick leave - 11% and unfunded pension cost – 26%. Over all, total liabilities increased by \$1.9 million or 13% from FY 2004 to FY 2005 then decreased by \$2.5 million or 15% from FY 2005 to FY 2006.

The Statement of Revenues, Expenses and Change in Net Assets reflects an overall increase in net assets from FY 2004 to FY 2005 by \$500,000 while there was an overall increase from FY 2005 to FY 2006 by \$1 million. In FY 2005, increased expenses of \$2 million resulted from the implementation of Public Law 27-106 which required full restoration of salary increments owed to eligible employees of the government and increase in utility payments by 33% which was caused by increased power and water rates. The increase in net assets in FY 2006 relates predominantly to the recognition of non-operating income due to the writedown of earthquake and typhoon damage estimates and grants received from the U.S. Government. The following table identifies the changes between major financial categories for the fiscal years ending September 30, 2006, 2005 and 2004.

Condensed Statement of Revenues, Expenses and Change in Net Assets

| | 2006 | 2005 | 2004 |
|---------------------------------------|---------------------|---------------------|----------------------|
| Operating revenues | \$25,272,928 | \$26,661,100 | \$26,779,573 |
| Operating expenses | 24,793,155 | 23,551,772 | 21,554,455 |
| Operating income before depreciation | 479,773 | 3,109,328 | 5,225,118 |
| Depreciation | 2,468,866 | 2,440,866 | 2,574,298 |
| Operating income(loss) | (1,989,093) | 668,462 | 2,650,820 |
| Nonoperating revenues(expenses), net | 2,799,418 | (1,036,287) | (768,316) |
| Earnings before capital contributions | 810,325 | (367,825) | 1,882,504 |
| Capital contributions-US Gov't Grants | 726,095 | 856,441 | - |
| Increase in net assets | 1,536,420 | 488,616 | 1,882,504 |
| Net assets at beginning of year | 46,772,762 | 46,284,146 | 44,401,642 |
| Net assets at end of year | <u>\$48,309,182</u> | <u>\$46,772,762</u> | <u>\$ 46,284,146</u> |

The Port's overall operating revenues remained steady from FY 2004 to FY 2005 with a slight decrease of \$100 thousand. The Port's overall operating revenues decreased by 5% to \$25.3 million in FY 2006 compared to \$26.7 million in FY 2005. Cargo throughput charges have decreased by 3% compared to the prior year primarily due to a decrease in grounded container operations. There were three reasons for containers not charged the grounded rate for fiscal year 2006: containers handled in FY06 were less than the prior year, shipping agents added more chassis to their inventory and the special rate given to export containers containing scrap materials. The total number of inbound domestic loaded containers decreased by 7%, from 32 thousand in FY05 to 29.8 thousand in FY06. The loaded and empty outbound

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domestic containers also decreased by 5% and 7% respectively compared to FY05. The total inbound containers handled for the Transshipment category increased by 16% in FY06 with the following breakdown: Transshipment Loaded Containers- 1% decrease and Transshipment Empty Containers – 125% increase. Although there was a substantial increase in the Transshipment empties, there was a minimal impact as far as the revenue is concerned due to the nominal charge of \$35.00 compared to the charge for loaded transshipment containers ranging from \$175 to \$235. The reduction in the number domestic containers handled in FY06 affected the wharfage revenues resulting in an almost 2% decrease compared to FY05. The equipment and space rental revenue decreased by almost 15% mainly due to the reduction of storage tanks used by one of the fuel companies from 5 tanks in FY05 to only 2 tanks by the end of FY06.

The operating expenses in FY 2004 totaling \$24.1 million (including depreciation expense) increased by 7.9% to \$26 million in FY 2005 by 7.9%. Operating expenses in FY 2005 totaling \$26 million (including depreciation expense) increased to \$27.3 million in FY 2006, an increase of \$1.3 million or 5%. Expense categories that recorded increases compared to the prior fiscal year are: equipment maintenance, insurance, utilities and operation divisions (Stevedoring, Terminal and Transportation) expenses. The total repairs/maintenance and parts/materials in FY06 was \$3.0 million compared to \$1.8 million in FY05, an increase of \$1.2 million or 53%. Maintenance management of the Port lifting equipment is being handled by Matson Navigation. For utilities expense, the average monthly power billing of \$59 thousand in FY05 increased to \$90 thousand a month in FY06, or a 53% increase. The insurance premium rates in FY06 increased by 9% compared to the FY05 rates. The increases in the operations divisions are primarily due to salary increments, overtime and accrued expenses for the unfunded retirement.

Operating net income before depreciation went from \$5.2 million in FY 2004 to \$3.1 million in FY 2005 then to \$480 thousand in FY 2006. After depreciation expenses are added, the Authority ended with an operating income (loss) of \$2.7 million in FY 2004, \$668 thousand in FY 2005, and \$(2) million in FY 2006.

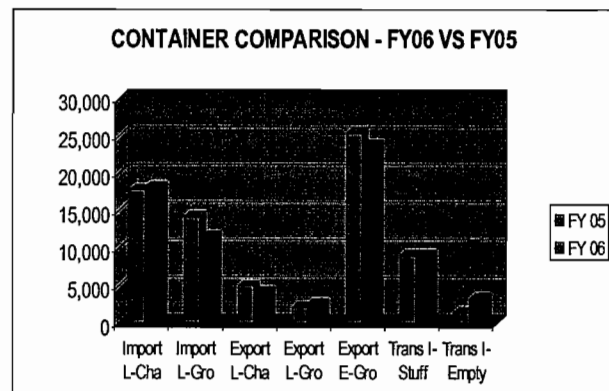
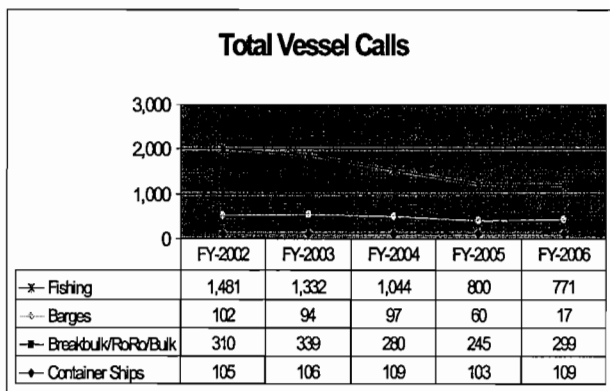
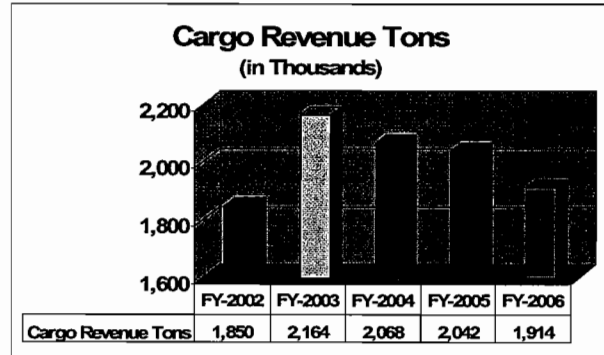
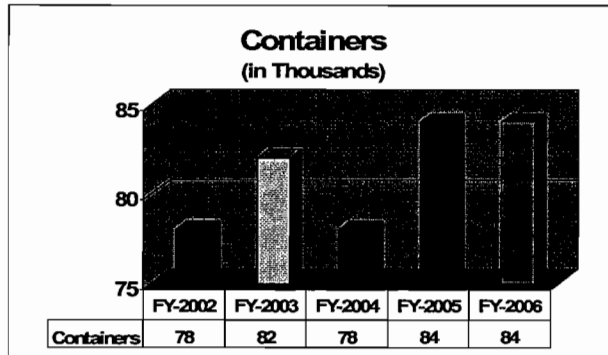
The total Non Operating Revenues and Expenses (net) was \$(768) thousand in FY 2004, \$(1) million in FY 2005 and a positive \$3 million in FY 2006 consisting of: Interest income-\$800 thousand, \$3.2 million of earthquake and typhoon gain, and \$1.1 million of Retirees' Supplemental Annuities and Medical, Dental and Life Insurance expenses. Federal grants received in FY 2006 were a total of \$726 thousand.

The addition to the non operating revenues/expenses and federal grants received resulted in an increase of net assets for FY 2006 of \$1.5 million.

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Historical Vessel and Cargo Statistics



- The total number of containers that were handled in fiscal year 2006 is almost the same number of containers in fiscal year 2005, which is 84 thousand containers, but the revenue tonnage in FY06 of 1.9 million revenue tons was a decrease compared to FY05 revenue tons of 2 million. Despite the same number of containers handled in the two fiscal years, the decrease in revenue tonnage implies that there are fewer loaded containers handled in FY06.
- Vessel calls for container ships have remained steady for the past 5 years ranging from 105 to 109 vessels. The major decrease in the total vessel calls is primarily attributable to the reduction of fishing vessels by more than 50%, which is due to the relocation of fish stocks and increased vessel regulations in US Ports.
- In comparing the different classifications of containers handled in FY06 to FY05, only Import Loaded Chassis containers, Export Loaded Ground containers and Transshipment Inbound Empty containers resulted in increases compared to the prior fiscal year. The decrease in total inbound containers in fiscal year 2006 and additional chassis inventory by the shipping companies resulted in more chassis operations in fiscal year 2006. The chassis rate is \$70.00 per container less than the grounded rate. One of the reasons for the escalation in export ground containers was the export of scrap materials in containers. The transshipment empty containers increased by almost 140% but the revenue impact was minimal, since the Authority only charges \$35 for returning empties. The decline of the garment industry in Saipan resulted in a major decrease of returning transshipment loaded containers.

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Capital Assets

Beginning fiscal year 2007, the Authority has implemented an aggressive capital investment program. This program was based on a number of motivating factors including the need to address aging lifting equipment, improvements in Port services and expected general growth opportunities primarily due to the expected increase of military personnel in Guam. These capital expenditures include acquisitions of the following equipment: two gantry cranes, mobile harbor crane, forklifts and tractors. Repairs and enhancement of the gantry rails and installation of additional reefer outlets are some of the immediate capital investment planned for FY 2007.

Current Known Conditions Affecting Future Operations

As of the first quarter of Fiscal Year 2007, Cargo Throughput Revenue is reflecting a 19% increase compared to the first three months of Fiscal Year 2006. Based on the container statistics for the first quarter of FY07, the total inbound loaded containers are up by 10% compared to last year and the outbound containers are up by 14%.

On December 28, 2006, Authority management presented six tariff policy memoranda on special rates and amendments to existing policy memoranda. The six tariff policy memoranda relate to the following matters: Fuel surcharge, Maritime Security Fee, Power Surcharge on Pre-Trip reefer containers, Hot Work Permit, Transshipment Rates and Labor Charge-out rates. Five of the six policy memoranda were approved on December 28, 2006 and the last one, which was a fuel surcharge, was approved on January 11, 2007. These additional revenues will aid the Authority in meeting the increases of operational expenses.

The Authority is currently working on updating the 1999 Master Plan to address matters that will affect Port operations such as increase in military personnel, upgrade of equipment and enhancement of Port properties.

Request for information

Management's Discussion and Analysis for the years ended September 30, 2005 and 2004 is set forth in the Authority's report on the audit of financial statements which is dated January 31, 2006. That Discussion and Analysis explains in more detail major factors impacting the 2005 and 2004 financial statements. A copy of that report can be obtained by contacting the Financial Affairs Controller or from the Authority's website at the addresses noted below.

This financial report is designed to provide a general overview of the Port Authority's finances and to demonstrate the Port Authority's accountability for the funds it receives and expends. Questions concerning this report or requests for additional information should be addressed to Jojo B. Guevara, Financial Affairs Controller, Port Authority of Guam, 1026 Cabras Highway, Suite 201, Piti, Guam 96915. Information of interest may also be obtained on the Port Authority's website at www.portofguam.com.

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Statements of Net Assets
September 30, 2006 and 2005

| <u>ASSETS</u> | <u>2006</u> | <u>2005</u> |
|---|----------------------|----------------------|
| Current assets: | | |
| Cash | \$ 16,289,151 | \$ 15,502,530 |
| Investment in time certificates of deposit | 1,000,000 | 2,000,000 |
| Accounts receivable, net of allowance for doubtful accounts of \$789,738 in 2006 and \$813,839 in 2005 | <u>2,378,424</u> | <u>2,986,547</u> |
| Total current assets | 19,667,575 | 20,489,077 |
| Replacement parts inventories, net of allowance for obsolescence of \$116,630 in 2006 and 2005 | 227,326 | 266,812 |
| Property, plant and equipment, net | <u>42,562,936</u> | <u>42,692,538</u> |
| | <u>\$ 62,457,837</u> | <u>\$ 63,448,427</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current liabilities: | | |
| Accounts payable, trade | \$ 1,796,282 | \$ 1,692,166 |
| Security deposits and other payables | 133,960 | 192,637 |
| Accrued typhoon and earthquake damages | 4,415,246 | 8,254,386 |
| Accrued payroll and withholdings | 593,474 | 581,582 |
| Current portion of accrued annual leave | 764,063 | 767,348 |
| Deferred revenue | <u>154,837</u> | <u>183,351</u> |
| Total current liabilities | 7,857,862 | 11,671,470 |
| Accrued annual leave, less current portion | 205,203 | 138,025 |
| Accrued sick leave | 462,097 | 415,103 |
| Unfunded pension costs | <u>5,623,493</u> | <u>4,451,067</u> |
| Total liabilities | <u>14,148,655</u> | <u>16,675,665</u> |
| Commitments and contingencies | | |
| Net assets: | | |
| Invested in capital assets | 42,562,936 | 42,692,538 |
| Unrestricted | <u>5,746,246</u> | <u>4,080,224</u> |
| Total net assets | <u>48,309,182</u> | <u>46,772,762</u> |
| | <u>\$ 62,457,837</u> | <u>\$ 63,448,427</u> |

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|---|----------------------|----------------------|
| Operating revenues: | | |
| Cargo throughput charges | \$ 17,832,627 | \$ 18,384,098 |
| Wharfage charges | 3,560,685 | 3,617,240 |
| Equipment and space rental | 3,413,322 | 3,996,800 |
| Special services | 296,429 | 252,136 |
| Other operating income | 169,865 | 410,826 |
| | <u>25,272,928</u> | <u>26,661,100</u> |
| Less bad debts | - | (192,393) |
| | <u>25,272,928</u> | <u>26,468,707</u> |
| Operating expenses: | | |
| Management and administration | 5,800,852 | 5,904,468 |
| Equipment maintenance | 5,787,375 | 4,551,573 |
| Transportation services | 3,395,466 | 3,137,401 |
| Insurance | 2,696,543 | 2,479,728 |
| Depreciation | 2,468,866 | 2,440,866 |
| Stevedoring services | 2,304,637 | 2,305,738 |
| Terminal services | 1,484,840 | 1,407,680 |
| Utilities | 1,298,478 | 1,040,855 |
| Facility maintenance | 1,268,412 | 1,311,882 |
| General expenses | 756,552 | 1,220,054 |
| Total operating expenses | <u>27,262,021</u> | <u>25,800,245</u> |
| (Loss) earnings from operations | <u>(1,989,093)</u> | <u>668,462</u> |
| Nonoperating revenues (expenses): | | |
| Interest income | 801,170 | 444,371 |
| COLA/supplemental annuities | (1,114,872) | (1,268,606) |
| Other expense | - | (1,696) |
| Loss from disposal of property, plant and equipment | (100,467) | (69,819) |
| Estimated earthquake and typhoon gain (loss) | 3,213,587 | (140,537) |
| Total nonoperating revenues (expenses), net | <u>2,799,418</u> | <u>(1,036,287)</u> |
| Earnings (loss) before capital contributions | 810,325 | (367,825) |
| Capital contributions: | | |
| Grants from the U.S. Government | <u>726,095</u> | <u>856,441</u> |
| Increase in net assets | 1,536,420 | 488,616 |
| Net assets at beginning of year | <u>46,772,762</u> | <u>46,284,146</u> |
| Net assets at end of year | <u>\$ 48,309,182</u> | <u>\$ 46,772,762</u> |

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 25,862,910 | \$ 27,178,856 |
| Cash payments to suppliers for goods and services | (8,595,400) | (7,252,348) |
| Cash payments to employees for services and benefits | <u>(15,932,495)</u> | <u>(15,596,007)</u> |
| Net cash provided by operating activities | <u>1,335,015</u> | <u>4,330,501</u> |
| Cash flows from investing activities: | | |
| Interest received | 801,170 | 444,371 |
| Decrease in investment in time certificates of deposit | <u>1,000,000</u> | <u>2,000,000</u> |
| Net cash provided by investing activities | <u>1,801,170</u> | <u>2,444,371</u> |
| Cash flows from capital and related financing activities: | | |
| Capital grants received | 715,720 | 494,551 |
| Insurance and FEMA claims received | - | 187,622 |
| Earthquake and typhoon costs | (625,553) | (228,426) |
| Purchase of property, plant and equipment | <u>(2,439,731)</u> | <u>(2,879,132)</u> |
| Net cash used in capital and related financing activities | <u>(2,349,564)</u> | <u>(2,425,385)</u> |
| Net increase in cash | 786,621 | 4,349,487 |
| Cash at beginning of year | <u>15,502,530</u> | <u>11,153,043</u> |
| Cash at end of year | <u>\$ 16,289,151</u> | <u>\$ 15,502,530</u> |
| Reconciliation of (loss) earnings from operations to net cash provided by operating activities: | | |
| (Loss) earnings from operations | \$ (1,989,093) | \$ 668,462 |
| Adjustments to reconcile (loss) earnings from operations to net cash provided by operating activities: | | |
| Depreciation | 2,468,866 | 2,440,866 |
| Payments for COLA/supplemental annuities | (1,114,872) | (1,268,606) |
| Bad debts | - | 192,393 |
| (Increase) decrease in assets: | | |
| Receivables | 618,498 | 457,053 |
| Replacement parts inventories | 39,486 | (38,345) |
| Increase (decrease) in liabilities: | | |
| Accounts payable, trade | 104,116 | 223,678 |
| Security deposits and other payables | (58,677) | 31,331 |
| Accrued payroll and withholdings | 11,892 | (29,950) |
| Accrued annual leave | 63,893 | (28,652) |
| Accrued sick leave | 46,994 | 415,103 |
| Unfunded pension costs | 1,172,426 | 1,206,465 |
| Deferred revenue | <u>(28,514)</u> | <u>60,703</u> |
| Net cash provided by operating activities | <u>\$ 1,335,015</u> | <u>\$ 4,330,501</u> |

See accompanying notes to financial statements.

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Notes to Financial Statements
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(1) Organization and Summary of Significant Accounting Policies

Organization

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

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

The Authority controls and/or manages approximately 260 acres of fast and submerged lands inclusive of the thirty acres noted previously. These areas include the Harbor of Refuge, Aqua World Marina, a portion of the Piti Channel, Agat Marina, Gregorio D. Perez Marina, Hotel Wharf, Dog Pier, Family Beach and the Port Authority Beach. In 1988, the Guam Economic Development Authority assigned the management of the thirty-two acre Cabras Industrial Park to the Authority.

Summary of Significant Accounting Policies

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 of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting” requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2006 and 2005

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

Summary of Significant Accounting Policies, Continued

Net Assets

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

- Invested in capital assets, net of related debt:
Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
Nonexpendable – Net assets subject to externally imposed stipulations that require the Authority to maintain them permanently.
Expendable – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time.
- Unrestricted:
Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

The Authority does not have restricted net assets at September 30, 2006 and 2005.

Cash

For purposes of the statements of net assets and of cash flows, cash is defined as cash on hand and deposits in banks and time certificates of deposit with initial maturities of three months or less. Time certificates of deposits with initial maturities of more than three months are separately classified. The Authority has both the intent and the ability to hold its time certificates of deposit, carried at cost which approximates fair value, to maturity.

Trade Accounts Receivable

Substantially all of the Authority's trade receivables as of September 30, 2006 and 2005, are due from companies located or operating in Guam. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Property, Plant and Equipment

Land is recorded at its appraised value on the date of transfer from the Government of Guam. Buildings and structures are stated at cost, which includes interest during the construction period. Equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 40 years for plant assets and equipment). Current policy is to capitalize items over \$1,000.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2006 and 2005

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

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, items which often are not used within one year are kept in inventory. Thus, replacement parts inventories are classified as non-current assets.

Annual Leave

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. Accumulation of such annual leave credits was limited to 480 hours at fiscal year end. All such annual leave credit is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave to 320 hours. Any annual leave earned in excess of 320 hours but not to exceed 100 hours as of February 28, 2003 shall be credited to the employee's sick leave. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003 may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, that portion permitted to be credited to sick leave shall be so credited and the remainder of the excess leave, if any, shall be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

Risk Management

The Authority has commercial insurance coverage for directors' and officers' liability, comprehensive liability, employee dishonesty and forgery, money and securities loss, and automobile injury and property damage. Worker's compensation is managed through the local Department of Labor. The Authority also has commercial property insurance coverage for 100% of the total net book value of property, plant and equipment, subject to deductibles.

Estimates

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

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2006 and 2005

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

Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2006, the Authority implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when service utility has declined significantly and unexpectedly.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination of Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefits Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

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

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2006 and 2005

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

Summary of Significant Accounting Policies, Continued

Reclassifications

Certain 2005 balances have been reclassified to conform with the 2006 financial statement presentation.

(2) Property, Plant and Equipment

A schedule of the Authority's property, plant and equipment as of September 30, 2006 and 2005 is as follows:

| | <u>Beginning Balance</u> <u>October 1, 2005</u> | <u>Transfers</u> <u>and Additions</u> | <u>Transfers</u> <u>and Deletions</u> | <u>Ending Balance</u> <u>September 30, 2006</u> |
|--------------------------------|--|--|--|--|
| <u>Depreciable assets:</u> | | | | |
| Buildings | \$ 63,292,341 | \$ 2,581,983 | \$ (606,664) | \$ 65,267,660 |
| Equipment | <u>19,995,228</u> | <u>104,000</u> | <u>(492,331)</u> | <u>19,606,897</u> |
| | 83,287,569 | 2,685,983 | (1,098,995) | 84,874,557 |
| Less accumulated depreciation | <u>(46,065,599)</u> | <u>(2,468,866)</u> | <u>998,528</u> | <u>(47,535,937)</u> |
| | <u>37,221,970</u> | <u>217,117</u> | <u>(100,467)</u> | <u>37,338,620</u> |
| <u>Non-depreciable assets:</u> | | | | |
| Land | 3,563,000 | - | - | 3,563,000 |
| Construction work in progress | <u>1,907,568</u> | <u>3,003,137</u> | <u>(3,249,389)</u> | <u>1,661,316</u> |
| | <u>5,470,568</u> | <u>3,003,137</u> | <u>(3,249,389)</u> | <u>5,224,316</u> |
| Total | \$ <u>42,692,538</u> | \$ <u>3,220,254</u> | \$ <u>(3,349,856)</u> | \$ <u>42,562,936</u> |
| | | | | |
| | <u>Beginning Balance</u> <u>October 1, 2004</u> | <u>Transfers</u> <u>and Additions</u> | <u>Transfers</u> <u>and Deletions</u> | <u>Ending Balance</u> <u>September 30, 2005</u> |
| <u>Depreciable assets:</u> | | | | |
| Buildings | \$ 62,235,243 | \$ 1,061,937 | \$ (4,839) | \$ 63,292,341 |
| Equipment | <u>20,041,547</u> | <u>817,793</u> | <u>(864,112)</u> | <u>19,995,228</u> |
| | 82,276,790 | 1,879,730 | (868,951) | 83,287,569 |
| Less accumulated depreciation | <u>(44,423,865)</u> | <u>(2,440,866)</u> | <u>799,132</u> | <u>(46,065,599)</u> |
| | <u>37,852,925</u> | <u>(561,136)</u> | <u>(69,819)</u> | <u>37,221,970</u> |
| <u>Non-depreciable assets:</u> | | | | |
| Land | 3,563,000 | - | - | 3,563,000 |
| Construction work in progress | <u>908,165</u> | <u>2,179,781</u> | <u>(1,180,378)</u> | <u>1,907,568</u> |
| | <u>4,471,165</u> | <u>2,179,781</u> | <u>(1,180,378)</u> | <u>5,470,568</u> |
| Total | \$ <u>42,324,090</u> | \$ <u>1,618,645</u> | \$ <u>(1,250,197)</u> | \$ <u>42,692,538</u> |

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2006 and 2005

(3) Deposits and Investments

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.

Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by the Authority or its agent in the Authority's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name;
or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Authority's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those 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 but not in the Authority's name. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2006 and 2005, the carrying amount of the Authority's total cash and cash equivalents and time certificates of deposit were \$17,289,151 and \$17,502,530, respectively, and the corresponding bank balances were \$17,851,947 and \$18,283,047, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006 and 2005, bank deposits in the amount of \$500,000 and \$400,006, respectively, were FDIC insured. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(4) Earthquake and Typhoon Damages

On October 13, 2001, an earthquake with a magnitude of 7.0 on the Richter scale struck Guam. Initial estimates of damage to the Authority's property, plant and equipment as a direct result of the earthquake, were approximately \$8 million, which has been received from insurance and recorded as accrued earthquake costs in the accompanying financial statements.

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Notes to Financial Statements
September 30, 2006 and 2005

(4) Earthquake and Typhoon Damages, Continued

On July 5, 2002, Typhoon Chata'an struck Guam with destructive winds in excess of 110 miles per hour. On December 8, 2002, Supertyphoon Pongsona struck Guam with destructive winds of approximately 180 miles per hour. Damages for Typhoon Chata'an and Supertyphoon Pongsona were originally estimated at a total of \$5,775,000.

During the year ended September 30, 2006, the Authority revised and reduced its estimates of the total earthquake damages by \$2,995,340 and total typhoon damages by \$218,247. These deductions are recorded as non-operating income in the accompanying financial statements.

Recorded earthquake and typhoon damages and related recoveries are all estimated amounts. Final damages and insurance and FEMA recoveries may be materially different than estimated.

(5) Employees' Retirement Plan

Employees of the Authority hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Until December 31, 1999, and for several limited periods after December 31, 1999, those employees who were members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System. Otherwise they remained under the old plan.

The Defined Benefit Plan (DB Plan) and the DCRS are administered by the Government of Guam Retirement Fund, to which the Authority contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of actuarial valuations performed as of September 30, 2004, 2003 and 2002, contribution rates for the years ended September 30, 2006 and 2005 and 2004, respectively, have been determined as follows:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|---------------|---------------|---------------|
| Normal costs (% of DB Plan payroll) | 17.83% | 18.30% | 17.66% |
| Unfunded liability costs (% of total payroll) | <u>21.36%</u> | <u>19.93%</u> | <u>16.23%</u> |
| | 39.19% | 38.23% | 33.89% |
| Employee contributions (DB Plan employees) | <u>9.50%</u> | <u>9.50%</u> | <u>9.50%</u> |
| Government contribution as a % of DB Plan payroll | <u>29.63%</u> | <u>28.73%</u> | <u>24.39%</u> |
| Government contribution as a % of total payroll | <u>26.00%</u> | <u>24.89%</u> | <u>20.81%</u> |

Statutory contribution rates for employer contributions were 21.81% and 20.81%, of qualifying payroll for the years ended September 30, 2006 and 2005, respectively. The statutory employee contribution rate for the DB Plan was 9.50% of qualifying payroll for both years.

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Notes to Financial Statements
September 30, 2006 and 2005

(5) Employees' Retirement Plan, Continued

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions are as follows:

| | <u>2004</u> <u>Actuarial Valuation</u> | <u>2003</u> <u>Actuarial Valuation</u> |
|----------------------------------|---|---|
| Interest rate and rate of return | 7.0% | 7.0% |
| Payroll growth | 3.5% | 3.5% |
| Salary increases | 4.0% - 8.5% | 4.0% - 8.5% |

The actuarial valuations performed as of September 30, 2004, 2003 and 2002, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Authority as a separate sponsor, the accrued unfunded liability at September 30, 2006 and 2005 may be materially different than that recorded in the accompanying financial statements.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2006 and 2005, are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

Retirement expense for the years ended September 30, 2006, 2005 and 2004 is as follows:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|---------------------|---------------------|---------------------|
| Cash contributions and accruals | \$ 2,307,094 | \$ 2,149,300 | \$ 2,308,708 |
| Increase in accrued unfunded liability to the retirement fund | <u>1,172,426</u> | <u>1,206,465</u> | <u>925,836</u> |
| | <u>\$ 3,479,520</u> | <u>\$ 3,355,765</u> | <u>\$ 3,234,544</u> |

The Government of Guam Retirement Fund issues annual financial reports that include its financial statements and required supplementary information. Reports may be obtained by writing to the Director of the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The Authority has accrued an estimated liability of \$462,097 and \$415,103 at September 30, 2006 and 2005, 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.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2006 and 2005

(6) Long Term Liabilities

Long term liabilities of the Authority consist of annual leave and sick leave payable to its employees and its liability to the retirement fund. Changes in long-term liabilities for the years ended September 30, 2006 and 2005 are as follows:

| | Outstanding at September 30, <u>2005</u> | <u>Increases</u> | <u>Decreases</u> | Outstanding at September 30, <u>2006</u> | <u>Current</u> | <u>Noncurrent</u> |
|--|--|---------------------|------------------|--|-------------------|---------------------|
| Accrued annual leave | \$ 905,373 | \$ 63,893 | \$ - | \$ 969,266 | \$ 764,063 | \$ 205,203 |
| Accrued unfunded liability to retirement fund | 4,451,067 | 1,172,426 | - | 5,623,493 | - | 5,623,493 |
| Accrued sick leave | <u>415,103</u> | <u>46,994</u> | <u>-</u> | <u>462,097</u> | <u>-</u> | <u>462,097</u> |
| | <u>\$ 5,771,543</u> | <u>\$ 1,283,313</u> | <u>\$ -</u> | <u>\$ 7,054,856</u> | <u>\$ 764,063</u> | <u>\$ 6,290,793</u> |

| | Outstanding at September 30, <u>2004</u> | <u>Increases</u> | <u>Decreases</u> | Outstanding at September 30, <u>2005</u> | <u>Current</u> | <u>Noncurrent</u> |
|--|--|---------------------|-------------------|--|-------------------|---------------------|
| Accrued annual leave | \$ 934,025 | \$ 655,783 | \$ 684,435 | \$ 905,373 | \$ 767,348 | \$ 138,025 |
| Accrued unfunded liability to retirement fund | 3,244,602 | 1,206,465 | - | 4,451,067 | - | 4,451,067 |
| Accrued sick leave | <u>-</u> | <u>415,103</u> | <u>-</u> | <u>415,103</u> | <u>-</u> | <u>415,103</u> |
| | <u>\$ 4,178,627</u> | <u>\$ 2,277,351</u> | <u>\$ 684,435</u> | <u>\$ 5,771,543</u> | <u>\$ 767,348</u> | <u>\$ 5,004,195</u> |

(7) Contingencies

Lawsuits and Claims

As of September 30, 2006 and 2005, the Authority has been named as defendant in several pending lawsuits and claims. The amount of potential loss as a direct result of these lawsuits and claims cannot presently be determined. As such, no provision has been recorded in the accompanying financial statements for these contingencies. The Authority intends to vigorously defend itself against all legal actions.

Government of Guam General Fund

The Guam Legislature has enacted legislation that requires certain component units, including the Authority, to transfer certain amounts to the Government of Guam general fund on an annual basis. During the year ended September 30, 1994, the Authority transferred \$500,000 to the General Fund pursuant to such legislation. In addition, during the year ended September 30, 1997, the Authority transferred \$3,500,000 to the Government of Guam Autonomous Agency Infrastructure Collection Fund. The Governor of Guam and the board of directors, for the years ended September 30, 1987 through 1993, 1995, 1996 and 1998 through 2006, have not determined the Authority's allocated portions of these transfers. Accordingly, no liability for this contingency has been recorded in the accompanying financial statements.

PORT AUTHORITY OF GUAM
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Notes to Financial Statements
September 30, 2006 and 2005

(8) Major Customers

The Authority has five major shipping line customers that account for 84.9% and 77.4% of total operating revenues for the years ended September 30, 2006 and 2005, respectively. The Authority has a high concentration of credit risk due to the limited number of entities comprising its customer base.

(9) Rental Operations

The Authority, in cooperation with the Guam Economic Development and Commerce Authority (GEDCA), leases space to tenants under noncancelable operating leases, with options to renew, providing for future minimum rentals. The future minimum rental payments due from tenants under noncancelable operating leases in effect at September 30, 2006, are as follows:

| <u>Year Ending</u> <u>September 30,</u> | <u>Authority</u> <u>Share</u> | <u>GEDCA Share</u> | <u>Total</u> |
|--|----------------------------------|--------------------|---------------------|
| 2007 | \$ 311,293 | \$ 162,633 | \$ 473,926 |
| 2008 | 461,637 | - | 461,637 |
| 2009 | 461,637 | - | 461,637 |
| 2010 | 348,072 | - | 348,072 |
| 2011 | <u>158,432</u> | <u>-</u> | <u>158,432</u> |
| | <u>\$ 1,741,071</u> | <u>\$ 162,633</u> | <u>\$ 1,903,704</u> |

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 is \$3,413,322 and \$3,996,800 respectively, for the years ended September 30, 2006 and 2005.

(10) Supplemental/COLA Annuities

As required by Public Law 27-106, the Authority must pay to the Government of Guam Retirement Fund certain supplemental benefits for retired employees. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered plan benefits. Supplemental/COLA benefits for the years ended September 30, 2006 and 2005 were \$1,114,872 and \$1,268,606, respectively.

(11) Related Party Balances

At September 30, 2005 and through part of fiscal year 2006, the Authority had time certificates of deposit of \$5 million with a bank in which the then Board Chairman held an executive position.

(12) Subsequent Event

The Authority has committed to purchasing a used gantry crane at an estimated cost of \$3.5 million. The acquisition is expected to be completed during the year ended September 30, 2007.

PORT AUTHORITY OF GUAM
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Schedule 1
Schedule of Expenses
Years Ended September 30, 2006 and 2005

| | 2006 | 2005 |
|-------------------------------------|--------------|--------------|
| Management and administration: | | |
| Management: | | |
| Salaries and wages - regular | \$ 169,567 | \$ 170,081 |
| Salaries and wages - other | - | 62 |
| Benefits - Government contribution | 47,721 | 43,753 |
| Accrued sick leave | - | 21,934 |
| Fringe benefits | 5,602 | 657 |
| Miscellaneous | 2,353 | 1,957 |
| Total Management | 225,243 | 238,444 |
| Administration: | | |
| Salaries and wages - regular | 3,649,389 | 3,532,122 |
| Salaries and wages - overtime | 41,570 | 183,760 |
| Salaries and wages - other | 44,568 | 44,303 |
| Benefits - Government contribution | 1,241,040 | 1,198,300 |
| Accrued sick leave | - | 160,876 |
| Fringe benefits | 208,166 | 192,298 |
| Contractual | 83,742 | 111,778 |
| Travel and training | 63,211 | 3,322 |
| Repairs and maintenance | 144,096 | 116,759 |
| Office supplies | 49,645 | 52,126 |
| Miscellaneous | 50,182 | 70,380 |
| Total Administration | 5,575,609 | 5,666,024 |
| Total Management and Administration | \$ 5,800,852 | \$ 5,904,468 |
| Equipment Maintenance: | | |
| Salaries and wages - regular | \$ 1,795,185 | \$ 1,717,396 |
| Salaries and wages - overtime | 256,916 | 263,116 |
| Salaries and wages - other | 88,633 | 87,320 |
| Benefits - Government contribution | 512,630 | 490,481 |
| Accrued sick leave | - | 59,070 |
| Fringe benefits | 129,677 | 95,157 |
| Parts, materials and supplies | 929,089 | 436,010 |
| Repairs and maintenance | 2,067,355 | 1,392,055 |
| Miscellaneous | 7,890 | 10,968 |
| Total Equipment Maintenance | \$ 5,787,375 | \$ 4,551,573 |

See accompanying independent auditors' report.

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Schedule 1, Continued
Schedule of Expenses, Continued
Years Ended September 30, 2006 and 2005

| | 2006 | 2005 |
|------------------------------------|--------------|--------------|
| Transportation Services: | | |
| Salaries and wages - regular | \$ 1,854,313 | \$ 1,706,491 |
| Salaries and wages - overtime | 152,105 | 162,968 |
| Salaries and wages - other | 118,898 | 98,329 |
| Benefits - Government contribution | 729,246 | 679,273 |
| Accrued sick leave | - | 45,773 |
| Fringe benefits | 123,355 | 112,370 |
| Gas, oil and diesel | 416,269 | 330,739 |
| Miscellaneous | 1,280 | 1,458 |
| Total Transportation Services | \$ 3,395,466 | \$ 3,137,401 |
| Stevedoring Services: | | |
| Salaries and wages - regular | \$ 1,409,124 | \$ 1,349,524 |
| Salaries and wages - overtime | 221,171 | 202,316 |
| Salaries and wages - other | 69,496 | 68,225 |
| Benefits - Government contribution | 498,876 | 488,970 |
| Accrued sick leave | - | 63,043 |
| Fringe benefits | 104,920 | 106,377 |
| Miscellaneous | 1,050 | 27,283 |
| Total Stevedoring Services | \$ 2,304,637 | \$ 2,305,738 |
| Facility Maintenance: | | |
| Salaries and wages - regular | \$ 765,900 | \$ 750,042 |
| Salaries and wages - overtime | 10,188 | 22,355 |
| Salaries and wages - other | 10,093 | 7,874 |
| Benefits - Government contribution | 281,281 | 287,573 |
| Accrued sick leave | - | 28,312 |
| Fringe benefits | 52,074 | 47,515 |
| Parts, materials and supplies | 100,530 | 149,554 |
| Miscellaneous | 48,346 | 18,657 |
| Total Facility Maintenance | \$ 1,268,412 | \$ 1,311,882 |
| Terminal Services: | | |
| Salaries and wages - regular | \$ 958,996 | \$ 919,617 |
| Salaries and wages - overtime | 79,989 | 36,714 |
| Salaries and wages - other | 19,294 | 18,134 |
| Benefits - Government contribution | 364,430 | 340,565 |
| Accrued sick leave | - | 36,095 |
| Fringe benefits | 51,420 | 51,223 |
| Miscellaneous | 10,711 | 5,332 |
| Total Terminal Services | \$ 1,484,840 | \$ 1,407,680 |

See accompanying independent auditors' report.

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

Schedule 1, Continued
Schedule of Expenses, Continued
Years Ended September 30, 2006 and 2005

| | 2006 | 2005 |
|---|------------|--------------|
| General Expenses: | | |
| Professional services | \$ 178,059 | \$ 164,845 |
| Shell manager's fee | 145,259 | 118,674 |
| GEDA land lease fee | 106,111 | 200,000 |
| Workmen's compensation injury allowance | 105,895 | 238,803 |
| Waste removal | 55,442 | 55,085 |
| Port incentive award | 33,094 | 13,527 |
| Agency fee | 29,985 | 32,555 |
| Audit and consulting fees | 27,000 | 27,000 |
| Claims and damages | 12,168 | 15,073 |
| Insurance consultants | - | 249,996 |
| Repair and maintenance | - | 48,896 |
| Inventory loss | (2,453) | 3,275 |
| Miscellaneous | 65,992 | 52,325 |
| Total General Expenses | \$ 756,552 | \$ 1,220,054 |
| Employees at end of year | 324 | 309 |

See accompanying independent auditors' report.

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

Schedule 2
Schedule of Salaries and Wages
Years Ended September 30, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|-------------------------------|----------------------|----------------------|
| Salaries and wages - regular | \$ 10,602,474 | \$ 10,145,273 |
| Salaries and wages - overtime | 761,939 | 871,291 |
| Salaries and wages - other | <u>350,982</u> | <u>367,938</u> |
| | <u>\$ 11,715,395</u> | <u>\$ 11,384,502</u> |

See accompanying independent auditors' report.