Financial Statements and Other Financial Information

Port Authority of Guam

(A Component Unit of the Government of Guam)

Years ended September 30, 2009 and 2008
with Report of Independent Auditors

Ernst & Young

ERNST & YOUNG

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(A Component Unit of the Government of Guam)

Financial Statements and
Other Financial Information

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Contents

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Report of Independent Auditors

Board of Directors
Port Authority of Guam

We have audited the accompanying statement of net assets of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit. The financial statements of the Authority for the year ended September 30, 2008 were audited by other auditors whose report dated January 26, 2009 expressed an unqualified opinion. As discussed in Note 12 to the accompanying financial statements, the Authority has restated its 2008 financial statements to reflect the effect of the redesignation of the GovGuam Defined Benefit Pension Plan from a single-employer to a cost-sharing multiple-employer plan, in conformity with accounting principles generally accepted in the United States. The other auditors reported on the 2008 financial statements before restatement.

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

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

We also audited the adjustment described in Note 12 to the accompanying financial statements that was applied to restate the 2008 financial statements. In our opinion, such adjustment is appropriate and has been properly applied.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2010 on our consideration of the Port Authority of Guam's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Ernst + Young LLP

January 29, 2010

Our discussion and analysis of the Port Authority of Guam's (the Port, the Authority or PAG) financial performance provides an overview of the Port's financial activities for the fiscal year ended September 30, 2009, with selected comparative information for the year ended September 30, 2008. Please read it in conjunction with PAG's financial statements and notes to the financial statements.

ABOUT THE AUTHORITY

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

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

MISSION STATEMENT

To modernize the Port as a first class facility in the region providing cargo handling services in a safe, efficient and sustainable manner.

FINANCIAL HIGHLIGHTS

- Operating revenues for the Port were $30.5 million. Total container moves in Fiscal Year 2009 were 96 thousand, a decrease of 7% from Fiscal Year 2008.
- The Port's net assets increased by approximately $2 million for fiscal year ended September 30, 2009.
- The assets of the Port exceeded its liabilities by $60 million in Fiscal Year 2009. Of this amount, $52.6 million is invested in capital assets and $7.0 million is unrestricted.
- The Port's total assets increased by $1.7 million and total liabilities decreased by $94 thousand during the fiscal year ended September 30, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Statements of Net Assets

The statements of net assets present the financial position of the Port at the end of the fiscal year. The statement includes all assets and liabilities of the Port. Net Assets, the difference between total assets and total liabilities, is an indicator of the current fiscal health of the organization and PAG's financial position over time.

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

Condensed Statements of Net Assets

ASSETS	2009	2008 (Restated)	2007 (Restated)
Current and other assets	$15,869,210	$18,058,178	$17,501,053
Capital assets	52,651,764	48,738,344	47,058,373
	$68,520,974	$66,796,522	$64,559,426
LIABILITIES AND NET ASSETS			
Current liabilities	$ 7,904,222	$ 8,221,107	$ 7,355,194
Other non-current liabilities	998,456	975,273	858,013
Total liabilities	8,902,678	9,196,380	8,213,207
Net assets:			
Invested in capital assets	52,651,764	48,738,344	47,058,373
Unrestricted	6,966,532	8,861,798	9,287,846
Total net assets	59,618,296	57,600,142	56,346,219
	$68,520,974	$66,796,522	$64,559,426

Statements of Net Assets, continued

Current and other assets decreased by $2.2 million from Fiscal Year 2008. Cash decreased by $3.1 million or 22% primarily due to payments related to CIP projects for the Gantry Rail replacement and Wharf Upgrade, and the acquisition of two top lifters in Fiscal Year 2009. Capital assets increased by $3.9 million. Construction in Progress was up by $2.2 million largely due to Master Plan projects, electrical upgrades and equipment refurbishments. Building and wharf improvements increased by $2.3 million due to the completed portion of the Gantry Rail replacement and Wharf Upgrade project. Equipment increased by $1.5 million mainly due to the Ports procurement of two brand new top lifters.

Current liabilities decreased by $317 thousand mainly due to reduction on Accrued Earthquake and Typhoon Damages liability by $2.2 million representing the completed portion on the Gantry Rail replacement and Wharf Upgrade project.

The net result of assets and liabilities when combined is an increase in net assets of $60 million. Of this total, $53 million is invested in capital assets and $7 million is unrestricted funds that may be used in Port's future Capital Improvement Projects and other obligations. Investments in capital assets are intended to improve services on shipping vessels operations for movement of cargo and other PAG's line of business.

Statements of Revenues, Expenses and Changes in Net Assets

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

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

Condensed Statements of Revenues, Expenses and Changes in Net Assets

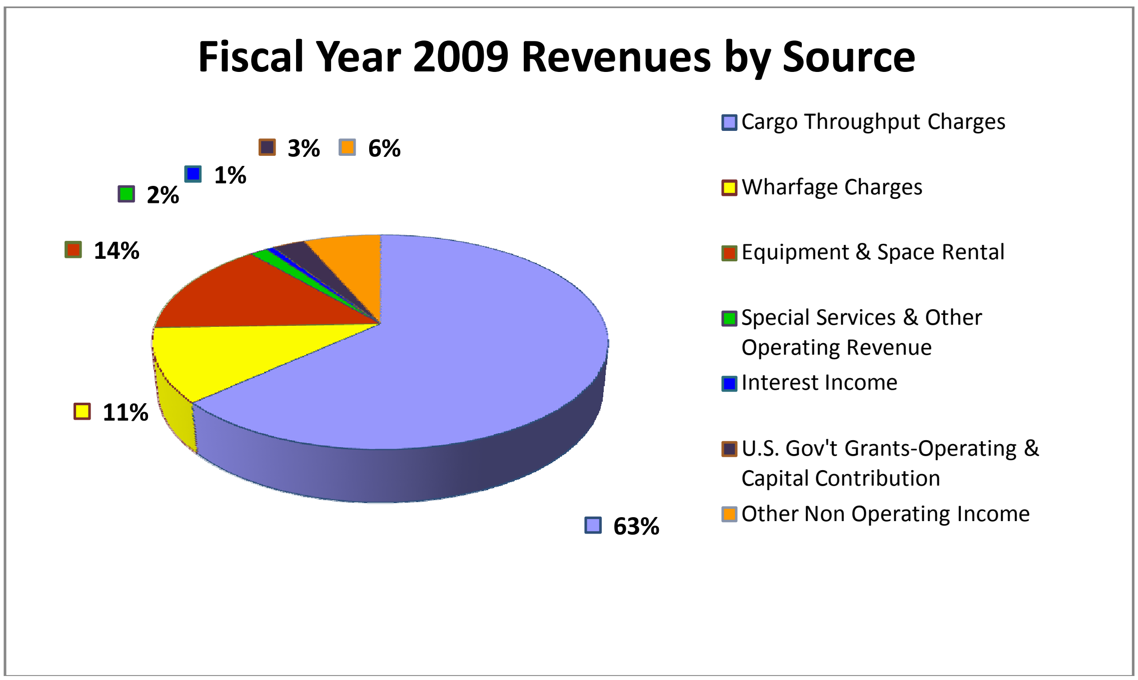
	2009	2008 (Restated)	2007 (Restated)
Operating revenues	$30,521,301	$30,257,489	$28,937,152
Operating expenses	(25,812,245)	(25,946,001)	(23,817,082)
Operating income before depreciation	4,709,056	4,311,488	5,120,070
Depreciation	(2,742,616)	(2,640,375)	(2,458,283)
Operating income (loss)	1,966,440	1,671,113	2,661,787
Nonoperating revenues (expenses), net	(327,554)	(754,653)	(526,990)
Earnings before capital contributions	1,638,886	916,460	2,134,797
Capital Contributions - U.S. Gov't Grants	379,268	337,463	278,747
Increase in net assets	2,018,154	1,253,923	2,413,544
Net assets at beginning of year	57,600,142	56,346,219	53,932,675
Net assets at end of year	$59,618,296	$57,600,142	$56,346,219

The total operating revenues increased by $264 thousand. Although cargo operations and wharfage revenue totals ended with a decrease of 2% and 3% respectively, facility lease revenues increased by $897 thousand primarily due to new fees related to the Shell management agreement, Agana and Agat marinas, space rental, security and common area charges. Operating expenses in Fiscal Year 2009 decreased by $134 thousand compared to Fiscal Year 2008. The primary reason for the reduction of expenses was due to cost containment measures implemented by the Port that resulted in decreases to the divisional expenses of operations and maintenance. There were increases in the Management and Administration due to the filling of vacant management positions. Depreciation expense increased by $102 thousand mainly due to receipt of new equipment and completion of capital improvement projects, and utilities increased by $519 thousand. The overall salaries and benefits, excluding government contributions, for Fiscal Year 2009 decreased by $40 thousand from $12 million in 2008 to $11.96 million in 2009. This is largely due to the decrease in overtime expense by 53% or $446 thousand.

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

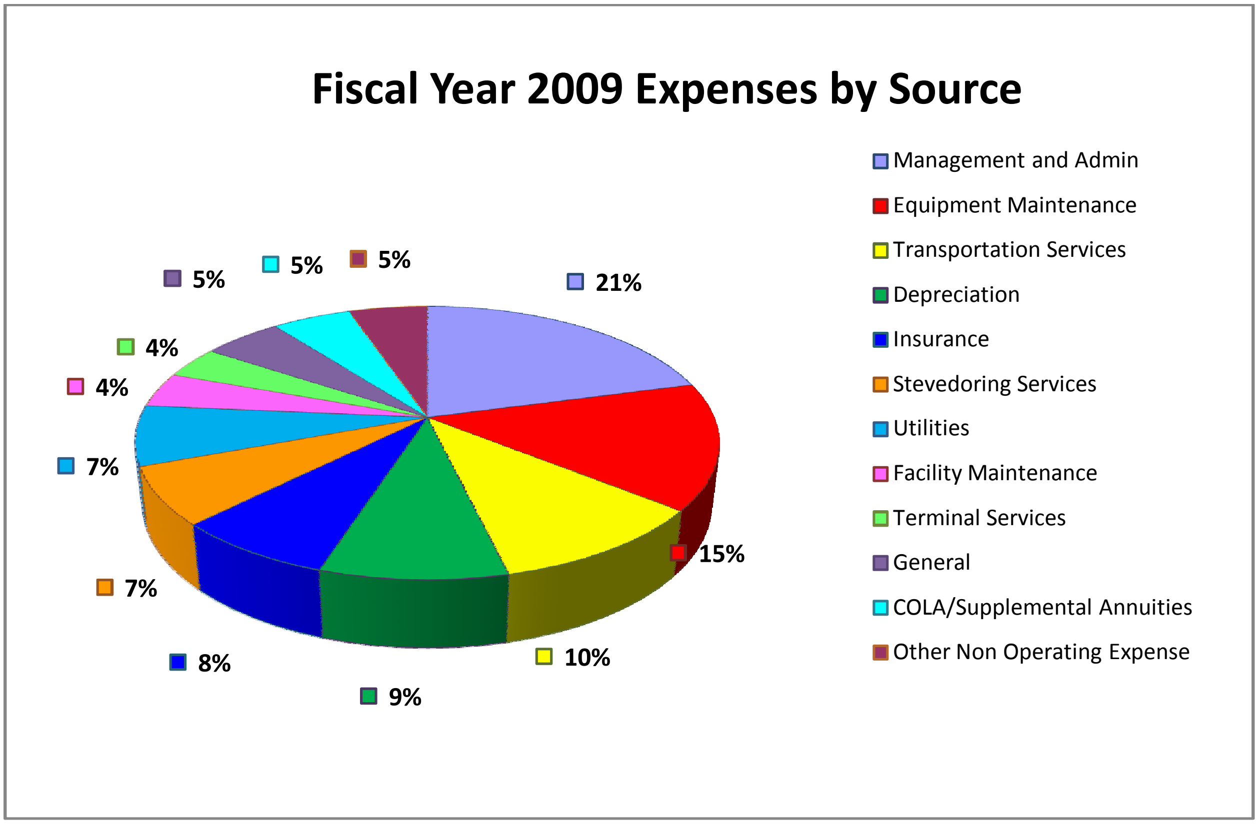
In fiscal year 2009, the non-operating expenses, net decreased by $427 thousand primarily due to recognition of revenue from the insurance settlement related to the Gantry rail replacement and Wharf upgrade project and receipt of U.S. Government operating grants. The Port also received $379 thousand of U.S. Government grants for capital contributions which are related to the Master Plan identified projects. The conversion of the DB plan from a single employer plan to a cost-sharing multiple-employer plan resulted in the restatement of prior years' net assets of $6.9 million. The net result in Fiscal Year ended September 30, 2009 is an overall increase of the Port's net assets by $2.0 million.

A graphical view of the Port's revenues by source includes operating and non operating revenues, non exchange income and capital contribution grants:

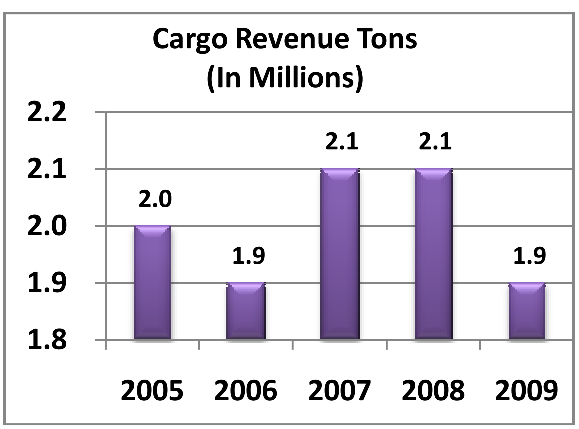


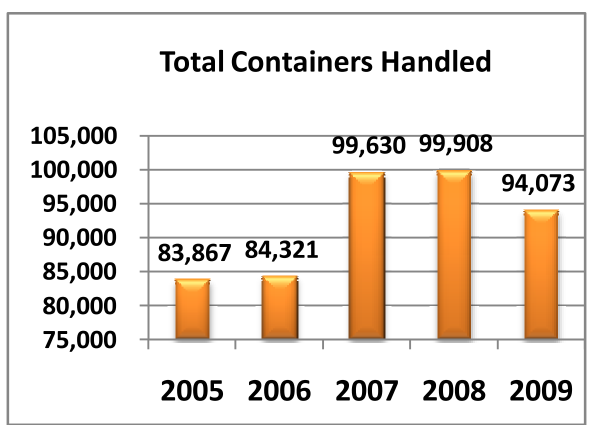
Statements of Revenues, Expenses and Changes in Net Assets, continued

A similar graph shows the Port's expenses by source including operating and non-operating expenses:



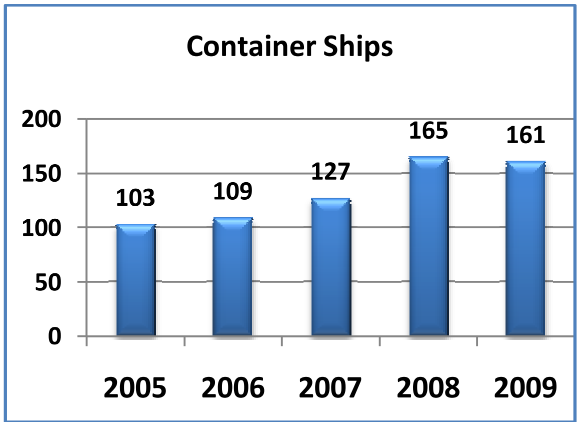
Vessel and Cargo Statistics

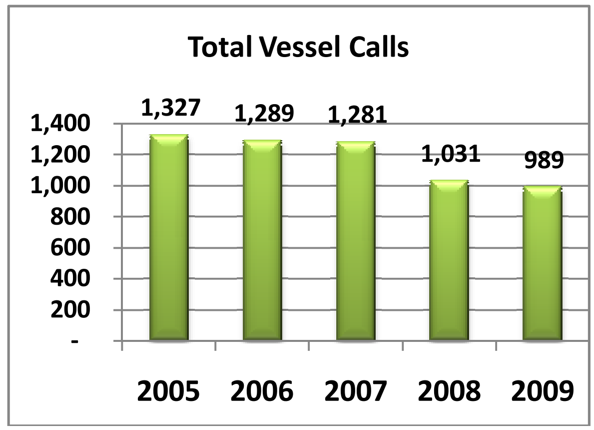




Statements of Revenues, Expenses and Changes in Net Assets, continued

Vessel and Cargo Statistics, continued





CAPITAL ASSETS

The Port's capital assets as of September 30, 2009 amounted to $52.7 million (net of accumulated depreciation), which is a $4 million increase compared to Fiscal Year 2008 total capital assets. Major capital asset events during the current fiscal year included the following:

- Expenditure of $2.6 million on the Gantry rail replacement and wharf upgrade project.
- The acquisition of two new top lifters totaling $1.3 million.
- Expenses of $1.3 million on lifting equipment refurbishments and new parts.
- Expenditures of $600 thousand for the electrical upgrade of the Port compound.
- Other investments in operational and administration equipment totaling $178 thousand.
- Building and yard improvements amounting to $200 thousand.

FY 2009 NOTABLE EVENTS AND ACCOMPLISHMENTS

In FY 2009, the Port forged ahead with aggressive efforts to modernize the facility and, through the extraordinary efforts of the port employees, our shareholders and the Administration, we successfully passed many milestones and launched our Port Modernization Program which calls for more than $200 Million in upgrades to our facility. Once fully implemented, this Modernization Program will transform the Port Authority of Guam into a world-class facility that will meet the needs of the U.S. military and our local and regional users. Some of the key milestones include:

FY 2009 NOTABLE EVENTS AND ACCOMPLISHMENTS, continued

MARAD Agreement – U.S. Public Law 110-417, National Defense Authorization Act for 2009, designated the U.S. Maritime Administration (MARAD) as the lead federal agency for the "Port of Guam Improvement Enterprise Program." PAG and MARAD executed an MOU in November 2008 outlining the responsibly of each party.

Port of Los Angeles (POLA) Gantry Cranes – In February of 2009, the three POLA Gantry cranes owned by Matson and Horizon were installed and will ensure uninterrupted flow of goods throughout the region. The three Gantry cranes were purchased by Horizon Lines, Inc. and Matson Navigation Company. The two companies acquired the cranes from the Port of Los Angeles in 2007 and have retrofitted and modified the equipment to enhance their productivity and handling capabilities. The reported $18 million investment by Horizon and Matson will ensure Guam is equipped with modern and reliable cranes that can support projected growth in cargo volumes to Guam and Micronesia region over the next 15 years.

Owner's Agent and Engineer (OAE) – In March 2009, the Port awarded Parsons Brinckerhoff (PB) the contract to be the Agency's Owner's Agent/Engineer. As the OAE, PB will represent the Port in developing the engineering designs to begin implementing the modernization program. The program, which will modernize the Jose D. Leon Guerrero Commercial Port, calls for nearly $200 million in capital improvement upgrades to the 34-year old facility.

Gantry Rail Replacement and Wharf Upgrade Project – In March 2009, Black Construction initiated the work of this $4 million project. The wharf upgrades are the first in the past 18 years and this is also the first time the rail system, which is more than 30 years old, has been replaced. This project was completed in November of 2009.

PL 30-19 Adoption of Proposed Lease Rates and Establish Fee Structure for Telecommunications – In April 2009, the Governor of Guam signed into law an act to adopt the proposed amended lease rates for office, warehouse and ground space, as well as the newly established fee structure for telecommunications at the Port Authority of Guam. This effectively updated the lease rates, that were in effect since 1988, to current market rates.

PL 30-43 Port Compensation Study – In July 2009, the Governor of Guam signed into law the adoption of the personnel rules and regulations for the Jose D. Leon Guerrero Commercial Port and to authorize performance based compensation and benefit adjustments for the PAG employees.

PL 30-52 Port Under Oversight of Public Utilities Commission – In July 2009, the Governor of Guam signed into law a bill to include the Port within the regulatory oversight supervision authority of the Public Utilities Commission (PUC). The establishment or modification of tariff rates and other charges for the Port shall require the approval of the PUC, in accordance with the procedures that are applicable by law to the rate-making process for public utilities.

FY 2009 NOTABLE EVENTS AND ACCOMPLISHMENTS, continued

PL 30-57 Approval of 2007 Port Master Plan Update – In September 2009, a law was passed granting final approval to the implementation of Phase I of the Port Master Plan Update 2007 report. The final approval of the Master Plan is needed to receive higher consideration for the Port's applications for Federal funding for the first phase of the Master Plan.

Strategic Port Designation – On September 14, 2009, the Military Surface Deployment and Distribution Command designated the Port of Guam as the United States' 16th commercial Strategic Seaport. The Port of Guam will be an essential instrument for the deployment of forces and associated supplies in the Pacific area. This will underscore the need for funding for infrastructure improvements on future Federal grant submissions.

ARRA Port Security Grant – In September of 2009, the Port Authority of Guam was awarded $910,594 in Federal American Reinvestment and Recovery Act (ARRA) funds through the Port Security Grant Program which will be used to better prepare the agency for response during times of emergency and natural disasters. The funding will be used to construct a new Maritime and Port Security Operations Center and to purchase all furniture and office equipment needed for the facility along with a back-up power system.

FISCAL YEAR 2010 OUTLOOK

The following is the course of action that PAG aims to accomplish or complete in FY 2010:

Performance Management Contract (PMC) – The Port will issue a Request for Proposal (RFP) for a Performance Management Contract by the end of January and conclude the process by July of 2010. The PMC will provide management expertise, training for PAG staff and potential investment in elevating the Port operations to world class standards. They will also participate in the modernization construction projects that the Port will undertake. The PMC will also help to improve efficiencies and continue to maximize operations while the Master Plan construction is on-going.

Project Management Team (PMT) – The PMT will be hired by MARAD, an agency under the U.S. Department of Transportation (DOT). MARAD will be making their selection of the PMT in 2010. The PMT's responsibility is to oversee the actual implementation and construction of the modernization plan. This will allow the Port to move forward with modernization efforts. PAG will need almost $100 million for the first part of Phase I of the Master Plan projects. The funding will be obtained from two Federal sources, one is from the DOT's Transportation Investment Generating Economic Recovery (TIGER) grant program and the second is the U.S. Department of Agriculture (USDA) Rural Development Loan Program.

FISCAL YEAR 2010 OUTLOOK, continued

Project Management Team (PMT), continued – The Port is awaiting the February 15th decision on the TIGER ARRA grants application totaling $49.7 million. This will be matched by two loans totaling $50 million, with the $25 million through the USDA direct loan and another $25 million through the USDA guaranteed loan program. These funds will help the Port jump-start almost half of the total modernization cost. The first part of Phase I capital improvement projects will focus on efficiencies and improvements for the Port operations. This first phase of projects is estimated to be completed by 2012.

Procurement Delegation – The Port's procurement delegation is critical to the operations' efficiency and the modernization projects identified in the Master Plan. The delegation is also needed to make the PMC contractor effective in managing the Port operations. The Port will be hiring a new Procurement Manager and will also work on obtaining the delegation authority from the Chief Procurement Officer.

Purchase of Gantry Crane – The Port has been unsuccessful for several years in its attempt to purchase Gantry cranes. With the help of the PMC and the identification of funding source, the Port will seek to purchase a crane by 2012, a requirement in the public law that approved the Port Master Plan 2007 Update.

Tariff Rate Increases under the Public Utilities Commission Process – The approval of the interim tariff rates that the Port is petitioning through the PUC is vital to the Port's financial credibility. PAG aims to accomplish two milestones this Fiscal Year:

1. Implement the initial proposed increase of 3.4% on cargo handling charges and rate increase on other non-cargo charges by February of 2010.
2. Hire a consultant that will do a full Tariff review by October of 2010. The tariff study is required to be submitted to the PUC by December of 2010.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

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

For additional information about this report, please contact Mr. Jojo Guevara, Finance Controller, Port Authority of Guam, 1026 Cabras Highway Suite 201, Piti, Guam 96915 or visit the Port's website at www.portguam.com.

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

Statements of Net Assets

	September 30, 2009	September 30, 2008 (Restated)
Assets		
Current assets:		
Cash and cash equivalents	$10,914,337	$13,971,221
Accounts receivable, net of allowance for doubtful accounts of $1,121,861 in 2009 and $791,420 in 2008	4,811,726	3,941,770
Total current assets	15,726,063	17,912,991
Replacement parts inventories, net of allowance for obsolescence of $122,619 in 2009 and $172,784 in 2008	143,147	145,187
Property, plant and equipment, net	52,651,764	48,738,344
	$68,520,974	$66,796,522
Liabilities and Net Assets		
Current liabilities:		
Accounts payable, trade	$ 4,293,604	$ 2,641,805
Security deposits and other payables	404,215	162,552
Accrued earthquake and typhoon damages	1,596,708	3,775,594
Accrued payroll and withholdings	621,833	794,251
Current portion of accrued annual leave	774,191	670,131
Deferred revenue	213,671	176,774
Total current liabilities	7,904,222	8,221,107
Accrued annual leave, less current portion	288,203	369,995
Accrued sick leave	710,253	605,278
Total liabilities	8,902,678	9,196,380
Net assets:		
Invested in capital assets	52,651,764	48,738,344
Unrestricted	6,966,532	8,861,798
Total net assets	59,618,296	57,600,142
	$68,520,974	$66,796,522

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Assets

	Year ended September 30, 2009	Year ended September 30, 2008 (Restated)
Operating revenues:		
Cargo throughput charges	$21,413,579	$21,914,820
Equipment and space rental	4,821,646	3,924,085
Wharfage charges	3,780,904	3,915,616
Special services	418,700	394,469
Other operating income	86,472	108,499
	30,521,301	30,257,489
Less bad debts	(414,943)	(68,415)
	30,106,358	30,189,074
Operating expenses:		
Management and administration	6,546,353	6,110,322
Equipment maintenance	4,696,695	5,714,410
Transportation services	3,296,598	3,416,172
Depreciation	2,742,616	2,640,375
Insurance	2,358,040	2,421,943
Utilities	2,233,347	1,714,669
Stevedoring services	2,133,159	2,347,221
Facility maintenance	1,299,445	1,313,221
Terminal services	1,188,318	1,276,125
General expenses	1,645,347	1,563,503
Total operating expenses	28,139,918	28,517,961
Earnings from operations	1,966,440	1,671,113
Nonoperating (expenses) revenues:		
U.S. Government operating grants	552,105	266,666
Interest income, net	220,030	492,075
COLA/supplemental annuities	(1,638,627)	(1,782,815)
Loss from disposal of property, plant and equipment and other expenses	(1,639,948)	(170,894)
Insurance settlement	2,178,886	440,315
Total nonoperating expenses, net	(327,554)	(754,653)
Earnings before capital contributions	1,638,886	916,460
Capital contributions – grants from the U.S. Government	379,268	337,463
Increase in net assets	2,018,154	1,253,923
Net assets at beginning of year	57,600,142	56,346,219
Net assets at end of year	$59,618,296	$57,600,142

See accompanying notes to financial statements.

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

Statements of Cash Flows

	Year ended September 30, 2009	2008 (Restated)
Cash flows from operating activities:		
Cash received from customers	$29,514,962	$29,463,993
Cash payments to suppliers for goods and services	(7,786,407)	(9,274,516)
Cash payments to employees for services and benefits	(17,640,858)	(17,374,543)
Net cash provided by operating activities	4,087,697	2,814,934
Cash flows from investing activities:		
Interest received	220,030	492,075
Decrease in investment in time certificates of deposit	---	500,000
Cash provided by investing activities	220,030	992,075
Cash flows from capital and related financing activities:		
Capital grants received	379,268	183,899
Purchase of property, plant and equipment	(8,295,984)	(4,491,240)
Net cash used in capital and related financing activities	(7,916,716)	(4,307,341)
Cash flows from non-capital related financing activities:		
Operating grants received	552,105	266,666
Litigation settlement received	---	397,406
Other non-capital financing	---	42,909
Cash provided by non-capital and related financing activities	552,105	706,981
Net (decrease) increase in cash and cash equivalents	(3,056,884)	206,649
Cash and cash equivalents at beginning of year	13,971,221	13,764,572
Cash and cash equivalents at end of year	$10,914,337	$13,971,221

See accompanying notes to financial statements.

Statements of Cash Flows, continued

	Year ended September 30, 2009	2008 (Restated)
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	$1,966,440	$1,671,113
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	2,742,616	2,640,375
Payments for COLA/supplemental annuities	(1,638,627)	(1,782,815)
Bad debts	414,943	68,415
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,284,899)	(828,078)
Replacement parts inventories, net	2,040	62,751
Accounts payable, trade	1,651,799	750,335
Security deposits and other payables	241,663	15,759
Accrued payroll and withholdings	(172,418)	91,453
Accrued annual leave	22,268	17,373
Deferred revenue	36,897	34,583
Accrued sick leave	104,975	73,670
Net cash provided by operating activities	$4,087,697	$2,814,934

Non-Cash Financing Activity

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

1. Organization and Summary of Significant Accounting Policies

Organization

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

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

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

Basis of Accounting

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

1. Organization and Summary of Significant Accounting Policies, continued

Basis of Accounting, continued

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

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 maybe 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, 2009 and 2008.

1. Organization and Summary of Significant Accounting Policies, continued

Cash and cash equivalents

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

Accounts Receivable

Substantially all of the Authority's trade receivables as of September 30, 2009 and 2008 are due from companies located or operating in Guam.

The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 90 days from the date of billing. As of September 30, 2009 and 2008, receivables that are more than ninety days past due totaled approximately $710,000 and $1,118,000, respectively. The Authority accrues finance charges on past due receivables. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Property, Plant and Equipment

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

Replacement Parts Inventories

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

1. Organization and Summary of Significant Accounting Policies, continued

Compensated Absences

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

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

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service;

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

3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

The statutes further amended the maximum accumulation of such vacation credits from 480 to 320 hours. Public Law No. 27-106 amended subsection (c) of 4 Guam Code Annotated § 4109. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over the excess shall be lost.

Risk Management

The Authority has commercial insurance coverage for directors' and officers' liability, comprehensive liability, employee dishonesty and forgery, money and securities loss, and automobile injury and property damage. Worker's compensation is managed through the local Department of Labor. The Authority also has commercial property insurance coverage for 100% of the total net book value of property, plant and equipment, subject to deductibles. The Authority incurred no losses in excess of insurance coverage during the years ended September 30, 2009, 2008 and 2007.

1. Organization and Summary of Significant Accounting Policies, continued

Estimates

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

New Accounting Standards

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB efforts to codify all GAAP for state and local governments so that they derive from a single source.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature – related party transactions, going concern considerations, and subsequent events.

In July 2005, GASB issued 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. The provisions of this statement were implemented simultaneously with GASB Statement No. 45. The implementation of this Statement did not have a material impact on the accompanying financial statements.

1. Organization and Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

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*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of this statement did not have a material impact on the accompanying financial statements.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The implementation of this statement did not have a material impact on the accompanying financial statements.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. The implementation of this statement did not have a material impact on the accompanying financial statements.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe the implementation of this statement will have a material impact on the accompanying financial statements.

1. Organization and Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. The implementation of this statement did not have a material effect on the accompanying financial statements of the Authority.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. The implementation of this statement did not have a material impact on the accompanying financial statements.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect of the financial statements.

Reclassifications

Certain reclassifications have been made to the schedules in the 2008 other financial information to correspond with the 2009 presentation.

2. Property, Plant and Equipment

A schedule of the Authority's property, plant and equipment as of September 30, 2009 and 2008 is as follows:

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

	Beginning Balance October 1, 2007	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2008
Depreciable assets:				
Buildings	$65,488,427	$ 199,326	$(23,656)	$65,664,097
Equipment	20,864,585	1,399,131	(1,732,571)	20,531,145
	86,353,012	1,598,457	(1,756,227)	86,195,242
Less accumulated depreciation	(46,431,938)	(2,640,375)	1,585,333	(47,486,980)
	39,921,074	(1,041,918)	(170,894)	38,708,262
Non-depreciable assets:				
Land	3,563,000	---	---	3,563,000
Construction work-in-progress	3,574,299	3,293,193	(400,410)	6,467,082
	7,137,299	3,293,193	(400,410)	10,030,082
Total	$47,058,373	$2,251,275	$(571,304)	$48,738,344

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, 2009 and 2008, the carrying amount of the Authority's total cash and cash equivalents were $10,914,337 and $13,971,221, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of $1,000,000 and $600,000, respectively, were FDIC insured. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

4. Earthquake and Typhoon Damages

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.

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.

During 2009, the Authority used a portion of the insurance proceeds totaling $2,178,886 for improvements to the F5 and F6 wharf and the rail replacement for the Gantry Crane, which is included as a component of property, plant and equipment, net in the accompanying 2009 statement of net assets.

As of September 30, 2009 and 2008, accrued earthquake and typhoon damages amounted to $1,596,708 and $3,775,594, respectively.

Accrued typhoon and earthquake damages are recorded net of insurance and FEMA recoveries in the accompanying financial statements.

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

5. Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

The Authority participates in the GovGuam Defined Benefit (DB) Plan administered by the GovGuam Retirement Fund (GGRF) to which all funds and agencies, including component units, as well as employees who are members of the DB Plan, contribute a fixed percentage of qualifying payroll. The DB Plan provides retirement, disability, and survivor benefits to members and beneficiaries who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. All new employees whose employment commences on or after October 1, 1995, are required to participate in the new Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group. Membership in the DB Plan was mandatory for all full-time employees, except for those compensated on a fee basis, independent contractors, and persons aged 60 or over upon employment. Most employees may retire with full benefits at age 60 with at least 10 years of service, or after 25 years of service, regardless of age. Vesting of benefits is optional for employees with 3 to 19 years of service, but is mandatory for employees with 20 or more years of service.

The DB Plan was originally designated as a single-employer plan but was redesignated by GovGuam's Department of Administration as a cost-sharing multiple-employer plan, effective October 1, 2008. The redesignation was based on the determination as outlined under GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, that all risks, awards, and costs, including benefit costs, are shared and are not attributed individually to the separate employers. As more fully discussed in Note 12, the redesignation from a single-employer to a cost-sharing multiple-employer plan resulted in a prior period adjustment relating to the unfunded pension liability and related cost recognized in prior years. A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the GGRF, 424 A Route 8, Maite, Guam 96910, or by visiting its website - www.ggrf.com.

5. Employees' Retirement Plan, continued

Defined Benefit Plan, continued

Funding Policy:

Plan members of the DB Plan are required to contribute a certain percent of their annual covered salary. The contribution requirements of the plan members and the Authority are established and may be amended by the GGRF. The Authority's contribution to the DB Plan for the year ended September 30, 2009 totaled $3,150,044, which equal to the required contributions for that year. The Authority's required contributions for the years ended September 30, 2008 and 2007 totaled $3,236,108 and $3,299,353, respectively, whereas the actual contributions totaled $2,718,839 and $2,495,504, respectively.

Annual Pension Cost and Net Pension Obligation as a Single-Employer Defined Benefit Contribution Plan:

Prior to the redesignation of the DB Plan as a cost-sharing multiple-employer plan, the Authority's annual pension cost and net pension obligation to the DB Plan for the year ended September 30, 2007 is as follows:

Annual Required Contribution	$3,358,885
Interest on Net Pension Obligation	393,645
Adjustment to Annual Required Contribution	(453,177)
Annual pension cost	3,299,353
Contributions made	(2,495,504)
Increase in Net Pension Obligation	803,849
Net Pension Obligation beginning of year	5,623,493
Net Pension Obligation end of year	$6,427,342

The Annual Required Contribution for the year ended September 30, 2007 was determined as part of the September 30, 2006 actuarial valuation using the "entry age normal" actuarial cost method. The actuarial assumptions included the following:

Interest rate and rate of return	7.0%
Payroll growth	3.5%
Salary increases	4.0%-8.5%

The assumptions did not include cost-of-living adjustments, which have been funded by the Authority when granted through annual legislation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

5. 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 into the DCRS plan for the years ended September 30, 2009 and 2008, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The Authority has accrued an estimated liability of $710,253 and $605,278 at September 30, 2009 and 2008, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

Other Post-Employment Benefits

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

6. Long-Term Liabilities

Long-term liabilities of the Authority consist of annual leave and sick leave payable to its employees. Changes in long-term liabilities for the years ended September 30, 2009 and 2008 are as follows:

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

	Outstanding at September 30, 2007	Additions	Reductions	Outstanding at September 30, 2008	Current	Noncurrent
Accrued annual leave	$1,022,753	$17,373	$ ---	$1,040,126	$670,131	$369,995
Accrued sick leave	531,608	73,670	---	605,278	---	605,278
	$1,554,361	$91,043	$ ---	$1,645,404	$670,131	$975,273

7. Contingencies

Lawsuits and Claims

As of September 30, 2009 and 2008, 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 2009, have not determined the Authority's allocated portions of these transfers. Accordingly, no liability for this contingency for those years has been recorded in the accompanying financial statements.

7. Contingencies, continued

Federal Award Programs

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

8. Major Customers

The Authority has five major shipping line customers that collectively account for 77.49% and 84.33% of total operating revenues for the years ended September 30, 2009 and 2008, 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, 2009, are as follows:

Year Ending September 30,	Authority Share	GEDCA Share	Total
2010	$390,209	$87,053	$ 477,262
2011	222,018	---	222,018
2012	37,872	---	37,872
2013	25,439	---	25,439
2014	27,983	---	27,983
Thereafter	237,493	---	237,493
	$941,014	$87,053	$1,028,067

9. Rental Operations, continued

The Authority also leases equipment and space to tenants on a month to month basis. Total equipment and lease space revenue from tenants for all rentals is $4,821,646 and $3,924,085 respectively, for the years ended September 30, 2009 and 2008, respectively.

10. Supplemental/COLA Benefits

As required by Public Law 27-106, the Authority must pay to the Government of Guam Retirement Fund certain supplemental benefits for retired employees. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered plan benefits. Supplemental benefits include the following for the years ended September 30, 2009 and 2008:

	2009	2008
Supplemental benefits	$ 453,094	$ 690,645
Medical and dental	1,132,252	1,038,570
Life insurance	53,281	53,600
	$1,638,627	$1,782,815

11. Related Party Balances

At September 30, 2009 and 2008, the Authority had deposits of approximately $848,000 and $1.1 million, respectively, with a bank for which a current member of the Authority's board is a director.

12. Prior Period Adjustment

In prior years, the Authority's DB Plan was accounted for as a single-employer plan. As more fully discussed in Note 5, effective October 1, 2008, the Government of Guam's Department of Administration redesignated the DB Plan as a cost-sharing multiple-employer plan. Under the cost-sharing multiple-employer plan, the Authority will recognize annual pension expense equal to its contractually required contributions to the DB Plan. Pension liabilities or assets will result from the difference between the contributions required and contributions made. The redesignation resulted in a reversal of the previously reported unfunded pension liability and related cost which totaled $6,944,611 and $517,269, respectively, as of and for the year ended September 30, 2008. The impact of the correction on the Authority's net assets as of October 1, 2007 and the results of its operations for the year ended September 30, 2008, is as follows:

	Net Assets	Increase in Net Assets
Net assets as of September 30, 2007, as originally reported	$49,918,877	
Reversal of unfunded pension liability as of September 30, 2007	6,427,342	
Net assets as of September 30, 2007, as restated	56,346,219	
Increase in net assets for the year ended September 30, 2008, as previously reported	736,654	$ 736,654
Reversal of accrued pension expense for the year ended September 30, 2008	517,269	517,269
Net assets as of September 30, 2008, as restated	$57,600,142	
Increase in net assets for the year ended September 30, 2008, as restated		$1,253,923

Other Financial Information

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

Details of Operating Expenses

	Year ended September 30, 2009	2008 (Restated)
Management and administration:		
Management:		
Salaries and wages - regular	$ 214,758	$ 244,191
Benefits - Government contribution	63,954	60,172
Annual leave	14,808	16,733
Miscellaneous	7,006	1,465
Fringe benefits	5,808	7,091
Office supplies	2,111	1,258
Salaries and wages - overtime	140	---
Furnishings and equipment	---	40
Total management	308,585	330,950
Administration:		
Salaries and wages - regular	3,933,620	3,634,444
Benefits - Government contribution	1,137,420	1,016,470
Annual leave	305,161	261,725
Miscellaneous	284,000	261,762
Fringe benefits	188,075	179,450
Repairs and maintenance	133,977	188,228
Salaries and wages - overtime	72,589	126,525
Furnishings and equipment	58,510	19,691
Operational supplies	52,058	21,843
Salaries and wages - other	47,552	43,312
Office supplies	24,806	25,922
Total administration	6,237,768	5,779,372
Total management and administration	$6,546,353	$6,110,322
Employees at end of year	115	117

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

Details of Operating Expenses, continued

	Year ended September 30, 2009	Year ended September 30, 2008 (Restated)
Equipment Maintenance:		
Salaries and wages - regular	$1,499,081	$1,472,306
Repairs and maintenance	1,346,875	1,587,930
Operational supplies	796,109	1,670,380
Benefits - Government contribution	453,748	438,554
Salaries and wages - other	155,493	134,296
Salaries and wages - overtime	140,296	206,986
Annual leave	111,051	100,229
Contractual	98,383	12,270
Fringe benefits	87,113	79,627
Furnishings and equipment	7,092	10,180
Office supplies	1,454	1,652
Total equipment maintenance	$4,696,695	$5,714,410
Employees at end of year	48	50
Transportation Services:		
Salaries and wages - regular	$1,897,133	$1,806,071
Benefits - Government contribution	582,953	535,535
Gas, oil and diesel	347,728	551,526
Annual leave	154,169	144,331
Fringe benefits	129,493	115,221
Salaries and wages - other	107,434	107,525
Salaries and wages - overtime	75,633	150,413
Furnishings and equipment	798	2,848
Operations supplies	424	1,624
Office supplies	833	852
Miscellaneous	---	226
Total transportation services	$3,296,598	$3,416,172
Employees at end of year	63	62

Port Authority of Guam
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Details of Operating Expenses, continued

	Year ended September 30, 2009	2008 (Restated)
Stevedoring Services:		
Salaries and wages - regular	$1,410,374	$1,405,678
Benefits - Government contribution	422,970	419,528
Annual leave	104,041	103,941
Fringe benefits	75,734	75,217
Salaries and wages - other	67,891	80,488
Salaries and wages - overtime	50,014	259,653
Operational supplies	1,383	1,882
Office supplies	752	834
Total stevedoring services	$2,133,159	$2,347,221
Employees at end of year	51	54
Facility Maintenance:		
Salaries and wages - regular	$ 833,005	$ 826,708
Benefits - Government contribution	243,843	231,463
Annual leave	68,054	58,501
Operational supplies	62,953	89,045
Fringe benefits	46,875	42,566
Salaries and wages - overtime	27,726	35,645
Salaries and wages - other	14,714	10,932
Furnishings and equipment	1,496	3,858
Contractual	450	13,970
Office supplies	329	533
Total facility maintenance	$1,299,445	$1,313,221
Employees at end of year	24	27

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Details of Operating Expenses, continued

	Year ended September 30, 2009	2008 (Restated)
Terminal Services:		
Salaries and wages - regular	$ 795,938	$ 839,258
Benefits - Government contribution	245,156	250,308
Annual leave	60,004	66,676
Fringe benefits	35,649	31,583
Salaries and wages - overtime	27,234	60,679
Salaries and wages - other	17,495	20,524
Office supplies	6,634	6,700
Operational supplies	180	260
Furnishings and equipment	28	137
Total terminal services	$1,188,318	$1,276,125
Employees at end of year	33	35
General Expenses:		
Legal counsel	$ 470,537	$577,939
Professional services	379,642	266,075
Shell manager's fee	340,348	262,746
Maintenance	146,578	54,000
Claims and damages	57,759	4,754
Workmen's compensation injury allowance	46,160	147,599
Waste removal	45,440	50,782
Inventory loss	38,319	56,424
Port incentive award	32,857	34,622
Audit	32,000	31,000
Agency fee	26,710	34,216
Miscellaneous	26,347	39,546
Board of Directors expense	2,650	3,800
Total general expenses	$1,645,347	$1,563,503

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Summary of Salaries and Wages

	Year ended September 30, 2009	2008 (Restated)
Salaries and wages - regular	$10,583,909	$10,228,656
Benefits - Government contribution	3,150,044	2,952,030
Fringe benefits	568,747	530,755
Salaries and wages - other	410,579	397,077
Salaries and wages - overtime	393,632	839,901
	$15,106,911	$14,948,419
Total employees at end of year	334	345