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

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2007 AND 2006

Deloitte.

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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, 2007 and 2006, 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, 2007 and 2006, 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 22, 2008, 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 22, 2008

Introduction

As management of the Port Authority of Guam (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended September 30, 2007 and 2006, with selected comparative information for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements which immediately follow this discussion.

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 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 and three marinas. The cost for operations and capital improvements are funded largely from the Authority's own revenues.

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

Overview of the Financial Statements and Analysis

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The statements of net assets and the statements of revenues, expenses and changes in net assets tell us whether the Authority's financial position has improved as a result of the year's activities. The statements of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the Authority is improving or deteriorating. The statements of revenues, expenses and changes in net assets show how the Authority's net assets changed during the year. These changes are reported as the underlying events occur regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses only one fund, an enterprise fund, which is a type of proprietary fund. An enterprise fund reports business type activities.

Financial Highlights and Analysis

The statements of net assets present the financial position of the Authority at the end of the fiscal year. A summarized comparison of the Authority's assets, liabilities, and net assets at September 30 is as follows:

Condensed Statements of Net Assets

ASSETS		2007	% Change	2006	% Change	2005
Current and other assets	$	17,501,053	-12%	19,894,901	-4%	20,755,889
Capital assets		47,058,373	11%	42,562,936	0%	42,692,538
Total assets	$	64,559,426	3%	62,457,837	-2%	63,448,427
LIABILITIES AND NET ASSETS						
Current liabilities	$	7,355,194	-6%	7,857,862	-33%	11,671,470
Other non-current liabilities		7,285,355	16%	6,290,793	26%	5,004,195
Total liabilities		14,640,549	3%	14,148,655	-15%	16,675,665
Net assets:						
Invested in capital assets		47,058,373	10%	42,562,936	0%	42,692,538
Unrestricted		2,860,504	-50%	5,746,246	41%	4,080,224
Total net assets		49,918,877	3%	48,309,182	3%	46,772,762
Total	$	64,559,426	3%	62,457,837	-2%	63,448,427

The total assets of the Authority exceeded its liabilities by $49.9 million at September 30, 2007. This represented an increase of $1.6 million or 3% compared with the prior fiscal year. Of the $49.9 million, $47 million is invested in capital assets and $2.9 million is unrestricted.

The decrease in current assets was due to the acquisition of equipment and an increase in capital improvement projects that were fully paid by the end of fiscal year 2007; this resulted in a 15% decrease in the Authority's cash balance compared to the prior fiscal year. Capital assets increased by 10%, primarily due to the acquisition of Authority lifting equipment and increases in capital improvement projects. The net result on the Authority's total assets as of fiscal year 2007 was an increase of $2.1 million or 3% from fiscal year 2006.

The total liabilities for fiscal year 2007 increased by 3% compared to prior fiscal year due to increases in the long-term unfunded liability to the Government of Guam Retirement Fund and accrued sick leave, by 14% and 15%, respectively.

PORT AUTHORITY OF GUAM
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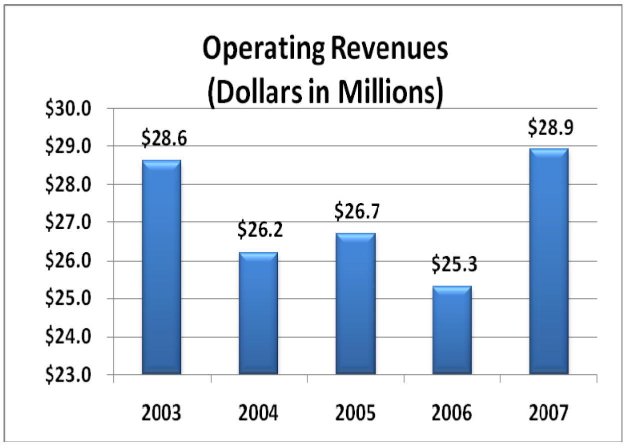
Management's Discussion and Analysis
September 30, 2007 and 2006

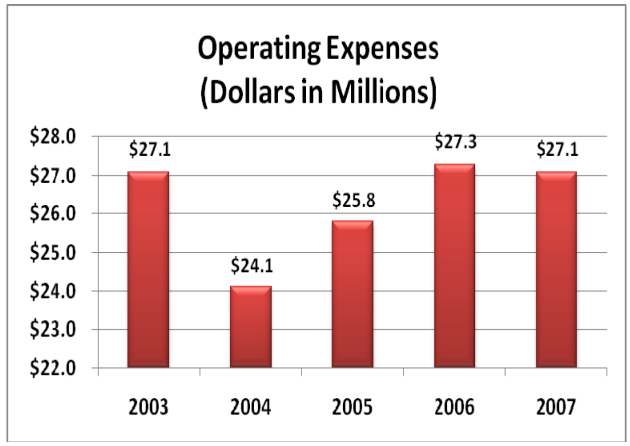
Summary of Operations and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets shows how the Authority's net assets changed 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). The change in net assets is an indicator of whether the overall fiscal condition of the Authority has improved or worsened during the year. Following is a summary of the statements of revenues, expenses, and changes in net assets for the years ended September 30:

	2007	% Change	2006	% Change	2005
Operating revenues	$ 28,937,152	14%	25,272,928	-5%	26,661,100
Operating expenses	(24,620,931)	-1%	(24,793,155)	5%	(23,551,772)
Operating Income before Depreciation	4,316,221	800%	479,773	-85%	3,109,328
Depreciation	(2,458,283)	0%	(2,468,866)	1%	(2,440,866)
Operating income (loss)	1,857,938	193%	(1,989,093)	-398%	668,462
Nonoperating revenues (expenses), net	(526,990)	-119%	2,799,418	370%	(1,036,287)
Earnings before capital contributions	1,330,948	64%	810,325	-320%	(367,825)
Capital Contributions-US Government Grants	278,747	-62%	726,095	-15%	856,441
Increase in net assets	1,609,695	5%	1,536,420	214%	488,616
Net assets at beginning of year	48,309,182		46,772,762		46,284,146
Net assets at end of year	$ 49,918,877	3%	48,309,182	3%	46,772,762

Summary of Operations and Changes in Net Assets, Continued





<u>Revenues</u>: Total 2007 operating revenues increased by $3.7 million or 14% from 2006 operating revenues. The rise in the amount of cargo handled and the implementation of the Tariff policy memorandums passed by the Board of Directors this fiscal year were the reasons for the increase in the Authority's operating revenues. The total domestic container-cargo throughput revenue is $15.7 million for fiscal year 2007, which is 75% of the total cargo throughput revenues, increased by $1.8 million or 13% from 2006 figures. Transshipment revenue increased by $705 thousand or 35% compared to last year. Other revenue categories that posted higher revenues compared to fiscal year 2006 were wharfage charges- 10%, equipment and space rentals- 8% and special services – 33%.

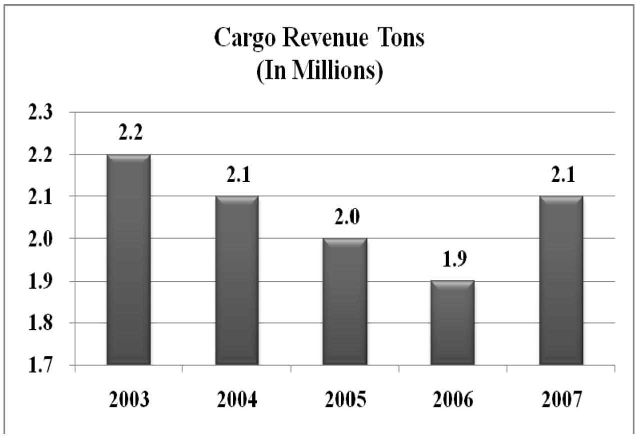
<u>Expenses:</u> The operating expense in fiscal year 2005 totaling $23.6 million increased by 5% to $27.3 million in fiscal year 2006. In fiscal year 2007, the total operating expense is $27.1 million, a decrease of 1% compared to prior fiscal year.

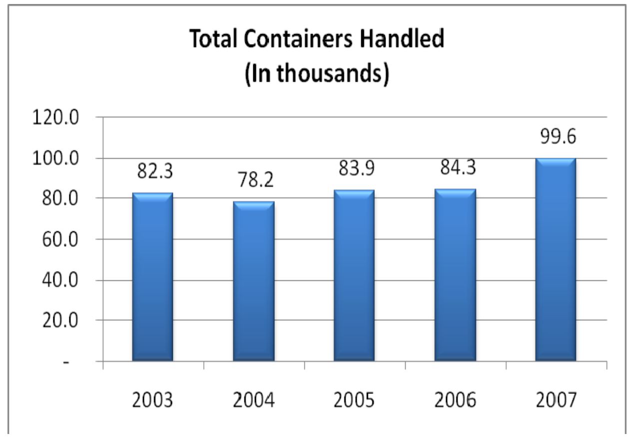
<u>Non-Operating:</u> The total non-operating revenue in fiscal year 2007 totaling $753 thousand dropped by $3.3 million or 81% from a total of $4 million in fiscal year 2006. This is largely due to the earthquake/typhoon gain of $3.2 million that was recorded in fiscal year 2006. The 2006 non-operating revenue total was an increase of $3.7 million compared to fiscal year 2005 total of $304 thousand.

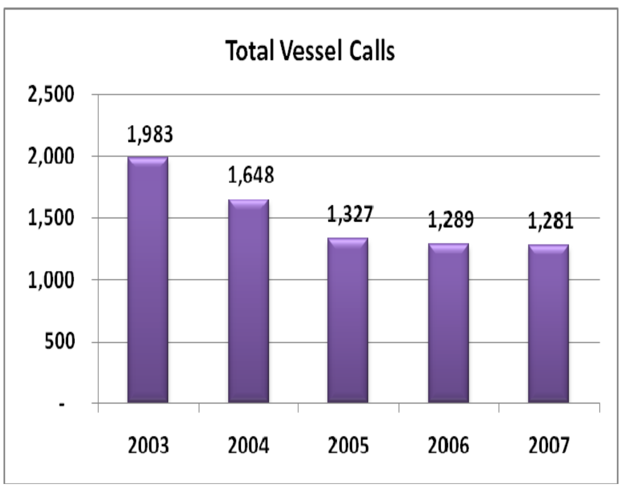
The fiscal year 2007 total non operating expense is $1.3 million, which is an increase of $100 thousand from $1.2 million in 2006. The net of the non-operating revenue and expense is a negative $527 thousand in fiscal year 2007 compared to a positive $2.8 million is fiscal year 2006.

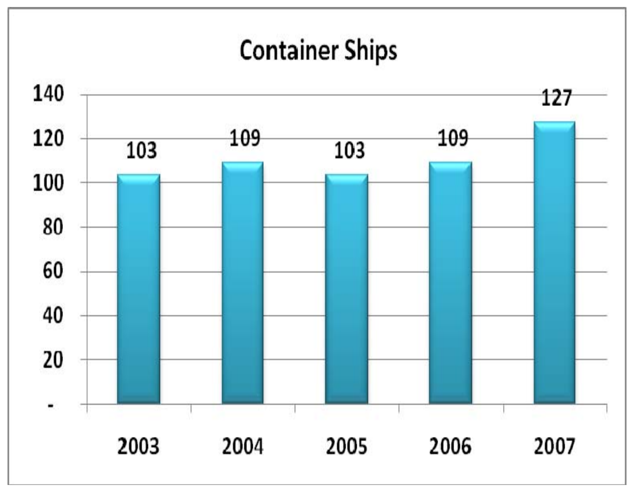
As a result of the above, the fiscal year 2007 operating income before depreciation is $4.3 million, an 800% increase from $480 thousand in fiscal year 2006. After depreciation expense, the Authority's operating income in fiscal year 2007 is $1.9 million, a 193% increase from last year's operating loss of $2 million. The total increase in net assets for fiscal year 2007 is $1.6 million, after the addition of non-operating income (loss) and Federal grants.

Vessel and Cargo Statistics









- The Port Authority has once again exceeded the 2 million mark cargo tonnage in fiscal year 2007. It was only in fiscal year 2006 that cargo tonnage went below 2 million. This feat was attained from 2003 to 2005.
- The number of containers that were handled in the Port docks increased from 84.3 thousand containers in fiscal year 2006 to 99.6 thousand in fiscal year 2007, an 18% improvement from prior year.
- The total vessel calls decreased from 1,289 in fiscal year 2006 to 1,281 in fiscal year 2007. The decrease of the total vessel calls was primarily due to the loss of fishing vessel calls.
- Container ships have increased by 17%, from 109 container vessels in fiscal year 2006 to 127 container vessels in fiscal year 2007. This is largely due to the addition of Matson Islander, which is serving the outer islands of Yap, Pohnpei, Marshall Islands and others, to the regular container vessels that come to the Port.

CAPITAL ASSETS

The Authority's capital assets as of September 30, 2007, amounted to $47.0 million (net of accumulated depreciation). The investment in capital assets in 2007 includes a mobile gantry crane, 8 brand new tractors, gantry crane refurbishment and upgrades, vehicles, marina and port facilities improvements, office equipments, furniture and fixtures, and construction work in progress. The total increase in the Authority's investment in capital assets after accumulated depreciation for 2007 was 11%, or $4.5 million.

MASTER PLAN

In the last quarter of fiscal year 2007, the Authority awarded the contract for consulting services to update the Port's master plan to Parsons Brinckerhoff International Inc. Besides updating the master plan, the scope of services also includes an Impact Assessment on the Port's facilities due to relocation of Okinawa-based military personnel and related additional activities to Guam and other anticipated major developments.

PERFORMANCE MANAGEMENT CONTRACT (PMC)

In October 24, 2007, the Governor signed Public Law No. 29-23, a bill introduced by the late Senator Antonio Unpingco, which authorizes the Board of Directors of the Jose D. Leon Guerrero Commercial Port to enter into a Public-Private Partnership through a Performance Management Contract for the management, operation and maintenance of the Port cargo handling equipment and/or facilities associated with such equipment and /or other aspects of the port operations.

OUTLOOK FOR 2008

The following are prospective strategic plan of action in meeting the anticipated increase in cargos, primarily due to the increase in military activities.

- Interim crane options
- Purchase of new lifting equipment - forklifts and toplifters
- Information Technology System Upgrade
- Economic Impact Study (EIS) for F-7 wharf and container yard expansion
- Architectural and Engineering (A&E) design for F7 wharf and container yard expansion
- Performance Management Contract (PMC) – Cargo Handling
- Yard Lighting Upgrades
- Replacement work on existing crane rails
- Additional Reefer outlets

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

The Management 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 Authority's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the years ended September 30, 2006 and 2005 is set forth in the Authority's report on the audit of financial statements which is dated January 12, 2007. That Discussion and Analysis explains in more detail major factors impacting the 2006 and 2005 financial statements. A copy of that report can be obtained by contacting the Financial Controller or from the Authority's website at the addresses noted below.

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 website at www.portofguam.com.

PORT AUTHORITY OF GUAM
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Statements of Net Assets
September 30, 2007 and 2006

ASSETS	2007	2006
Current assets:		
Cash	$ 13,764,572	$ 16,289,151
Investment in time certificates of deposit	500,000	1,000,000
Accounts receivable, net of allowance for doubtful accounts of $805,412 in 2007 and $789,738 in 2006	3,028,543	2,378,424
Total current assets	17,293,115	19,667,575
Replacement parts inventories, net of allowance for obsolescence of $116,630 in 2007 and 2006	207,938	227,326
Property, plant and equipment, net	47,058,373	42,562,936
	$ 64,559,426	$ 62,457,837
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable, trade	$ 1,891,470	$ 1,796,282
Security deposits and other payables	146,793	133,960
Accrued typhoon and earthquake damages	3,775,594	4,415,246
Accrued payroll and withholdings	702,798	593,474
Current portion of accrued annual leave	696,348	764,063
Deferred revenue	142,191	154,837
Total current liabilities	7,355,194	7,857,862
Accrued annual leave, less current portion	326,405	205,203
Accrued sick leave	531,608	462,097
Unfunded pension costs	6,427,342	5,623,493
Total liabilities	14,640,549	14,148,655
Commitments and contingencies		
Net assets:		
Invested in capital assets	47,058,373	42,562,936
Unrestricted	2,860,504	5,746,246
Total net assets	49,918,877	48,309,182
	$ 64,559,426	$ 62,457,837

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
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Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2007 and 2006

	2007	2006
Operating revenues:		
Cargo throughput charges	$ 20,824,881	$ 17,832,627
Wharfage charges	3,917,842	3,560,685
Equipment and space rental	3,702,054	3,413,322
Special services	394,948	296,429
Other operating income	97,427	169,865
	28,937,152	25,272,928
Less bad debts	(15,674)	-
	28,921,478	25,272,928
Operating expenses:		
Management and administration	5,900,550	5,800,852
Equipment maintenance	5,146,553	5,787,375
Transportation services	3,481,801	3,395,466
Insurance	2,648,925	2,696,543
Depreciation	2,458,283	2,468,866
Stevedoring services	2,370,790	2,304,637
Terminal services	1,396,265	1,484,840
Facility maintenance	1,330,827	1,268,412
Utilities	1,307,429	1,298,478
General expenses	1,022,117	756,552
Total operating expenses	27,063,540	27,262,021
Earnings (loss) from operations	1,857,938	(1,989,093)
Nonoperating (expenses) revenues:		
Interest income	747,114	801,170
COLA/supplemental annuities	(1,139,971)	(1,114,872)
Loss from disposal of property, plant and equipment	(139,054)	(100,467)
Estimated earthquake and typhoon gain	4,921	3,213,587
Total nonoperating (expenses) revenues, net	(526,990)	2,799,418
Earnings before capital contributions	1,330,948	810,325
Capital contributions:		
Grants from the U.S. Government	278,747	726,095
Increase in net assets	1,609,695	1,536,420
Net assets at beginning of year	48,309,182	46,772,762
Net assets at end of year	$ 49,918,877	$ 48,309,182

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
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Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received from customers	$ 28,293,019	$ 25,862,910
Cash payments to suppliers for goods and services	(8,521,267)	(8,595,400)
Cash payments to employees for services and benefits	(16,060,381)	(15,932,495)
Net cash provided by operating activities	3,711,371	1,335,015
Cash flows from investing activities:		
Interest received	747,114	801,170
Decrease in investment in time certificates of deposit	500,000	1,000,000
Net cash provided by investing activities	1,247,114	1,801,170
Cash flows from capital and related financing activities:		
Capital grants received	244,441	715,720
Purchase of property, plant and equipment	(7,092,774)	(2,439,731)
Net cash used in capital and related financing activities	(6,848,333)	(1,724,011)
Cash flows from non-capital related financing activities:		
Earthquake and typhoon costs	(634,731)	(625,553)
Net cash used in non-capital related financing activities	(634,731)	(625,553)
Net (decrease) increase in cash	(2,524,579)	786,621
Cash at beginning of year	16,289,151	15,502,530
Cash at end of year	$ 13,764,572	$ 16,289,151
Reconciliation of earnings (loss) from operations to net cash provided by operating activities:		
Earnings (loss) from operations	$ 1,857,938	$ (1,989,093)
Adjustments to reconcile earnings (loss) from operations to net cash provided by operating activities:		
Depreciation	2,458,283	2,468,866
Payments for COLA/supplemental annuities	(1,139,971)	(1,114,872)
Bad debts	15,674	-
(Increase) decrease in assets:		
Receivables	(631,487)	618,498
Replacement parts inventories	19,388	39,486
Increase (decrease) in liabilities:		
Accounts payable, trade	95,188	104,116
Security deposits and other payables	12,833	(58,677)
Accrued payroll and withholdings	109,324	11,892
Accrued annual leave	53,487	63,893
Accrued sick leave	69,511	46,994
Unfunded pension costs	803,849	1,172,426
Deferred revenue	(12,646)	(28,514)
Net cash provided by operating activities	$ 3,711,371	$ 1,335,015

See accompanying notes to financial statements.

(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.

(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, 2007 and 2006.

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, 2007 and 2006 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 collectability 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.

(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.

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

Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2007, the Authority implemented GASB 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 implementation of this Statement did not have a material effect on the financial statements of the Authority.

In July 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.

In December 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. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Authority.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an Amendment of GASB Statements No. 25 and 27.* GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The provisions of this Statement are effective for periods beginning after June 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 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 that the implementation of this Statement will have a material effect on the financial statements of the Authority.

(2) Property, Plant and Equipment

A schedule of the Authority's property, plant and equipment as of September 30, 2007 and 2006 is as follows:

	Beginning Balance October 1, 2006	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2007
Depreciable assets:				
Buildings	$ 65,267,660	$ 220,767	$ -	$ 65,488,427
Equipment	19,606,897	4,959,024	(3,701,336)	20,864,585
	84,874,557	5,179,791	(3,701,336)	86,353,012
Less accumulated depreciation	(47,535,937)	(2,458,283)	3,562,282	(46,431,938)
	37,338,620	2,721,508	(139,054)	39,921,074
Non-depreciable assets:				
Land	3,563,000	-	-	3,563,000
Construction work in progress	1,661,316	6,405,587	(4,492,604)	3,574,299
	5,224,316	6,405,587	(4,492,604)	7,137,299
Total	$ 42,562,936	$ 9,127,095	$ (4,631,658)	$ 47,058,373

	Beginning Balance October 1, 2005	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2006
Depreciable assets:				
Buildings	$ 63,292,341	$ 2,581,983	$ (606,664)	$ 65,267,660
Equipment	19,995,228	104,000	(492,331)	19,606,897
	83,287,569	2,685,983	(1,098,995)	84,874,557
Less accumulated depreciation	(46,065,599)	(2,468,866)	998,528	(47,535,937)
	37,221,970	217,117	(100,467)	37,338,620
Non-depreciable assets:				
Land	3,563,000	-	-	3,563,000
Construction work in progress	1,907,568	3,003,137	(3,249,389)	1,661,316
	5,470,568	3,003,137	(3,249,389)	5,224,316
Total	$ 42,692,538	$ 3,220,254	$ (3,349,856)	$ 42,562,936

(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.

(3) Deposits and Investments, Continued

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, 2007 and 2006, the carrying amount of the Authority's total cash and cash equivalents and time certificates of deposit were $14,264,572 and $17,289,151, respectively, and the corresponding bank balances were $14,262,972 and $17,851,947, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits in the amount of $500,000 were FDIC insured. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(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 Ponsona were originally estimated at a total of $5,775,000.

(4) Earthquake and Typhoon Damages, Continued

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.

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

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, 2005, 2004 and 2003, contribution rates for the years ended September 30, 2007 and 2006 and 2005, respectively, have been determined as follows:

	2007	2006	2005
Normal costs (% of DB Plan payroll)	18.21%	17.83%	18.30%
Employee contributions (DB Plan employees)	9.50%	9.50%	9.50%
Employer portion of normal cost (% of DB Plan payroll)	8.71%	8.33%	8.80%
Employer portion of normal cost (% of total payroll)	6.81%	4.64%	4.96%
Unfunded liability cost (% of total payroll)	20.67%	21.36%	19.93%
Government contribution as a % of total payroll	27.48%	26.00%	24.89%

The statutory contribution as a % of DB payroll is as follows:

	2007	2006	2005
Employer	22.94%	21.81%	20.81%
Employee	9.50%	9.50%	9.50%

The plan utilized the actuarial cost method termed "entry age normal". Significant actuarial assumptions for the 2005, 2004 and 2003 actuarial valuations were:

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

(5) Employees' Retirement Plan, Continued

The unfunded liability is being amortized as a level percentage of total payroll through May 1, 2031.

The actuarial valuations performed as of September 30, 2005, 2004 and 2003, 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, 2007 and 2006 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 investment account within the DCRS. Employees are afforded the opportunity to select from different investment options available under the DCRS.

Statutory employer contributions into the DCRS for the years ended September 30, 2007 and 2006 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 investment 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, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
Cash contributions and accruals	$ 2,495,504	$ 2,307,094	$ 2,149,300
Increase in accrued unfunded liability to the retirement fund	803,849	1,172,426	1,206,465
	$ 3,299,353	$ 3,479,520	$ 3,355,765

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 $531,608 and $462,097 at September 30, 2007 and 2006, 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.

(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, 2007 and 2006 are as follows:

	Outstanding at September 30, 2006	Increases	Decreases	Outstanding at September 30, 2007	Current	Noncurrent
Accrued annual leave	$ 969,266	$ 53,487	$ -	$ 1,022,753	$ 696,348	$ 326,405
Accrued unfunded liability to retirement fund	5,623,493	803,849	-	6,427,342	-	6,427,342
Accrued sick leave	462,097	69,511	-	531,608	-	531,608
	$ 7,054,856	$ 926,847	$ -	$ 7,981,703	$ 696,348	$ 7,285,355

	Outstanding at September 30, 2005	Increases	Decreases	Outstanding at September 30, 2006	Current	Noncurrent
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	415,103	46,994	-	462,097	-	462,097
	$ 5,771,543	$ 1,283,313	$ -	$ 7,054,856	$ 764,063	$ 6,290,793

(7) Contingencies

Lawsuits and Claims

As of September 30, 2007 and 2006, 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 2007, 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.

(8) Major Customers

The Authority has five major shipping line customers that account for 84.17% and 84.9% of total operating revenues for the years ended September 30, 2007 and 2006, 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, 2007, are as follows:

Year Ending September 30,	Authority Share	GEDCA Share	Total
2008	$ 227,797	$ 322,317	$ 550,114
2009	496,395	53,719	550,114
2010	387,201	-	387,201
2011	195,274	-	195,274
2012	52,971	-	52,971
2013	28,669	-	28,669
	$ 1,388,307	$ 376,036	$ 1,764,363

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 $3,702,054 and $3,413,322 respectively, for the years ended September 30, 2007 and 2006.

(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/COLA benefits for the years ended September 30, 2007 and 2006 were $1,139,971 and $1,114,872, respectively.

(11) Related Party Balances

At September 30, 2007, the Authority had time certificates and deposits of $1.6 million with a bank for which a current member of the Authority's board is a director.

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

Schedule 1
Schedule of Expenses
Years Ended September 30, 2007 and 2006

	2007	2006
Management and administration:		
Management:		
Salaries and wages - regular	$ 160,113	$ 169,567
Benefits - Government contribution	46,164	47,721
Fringe benefits	8,560	5,602
Miscellaneous	6,112	2,353
Total Management	220,949	225,243
Administration:		
Salaries and wages - regular	3,748,845	3,649,389
Salaries and wages - overtime	72,114	41,570
Salaries and wages - other	45,417	44,568
Benefits - Government contribution	1,198,460	1,241,040
Fringe benefits	218,719	208,166
Contractual	79,703	83,742
Travel and training	66,948	63,211
Repairs and maintenance	167,434	144,096
Office supplies	34,815	49,645
Miscellaneous	47,146	50,182
Total Administration	5,679,601	5,575,609
Total Management and Administration	$ 5,900,550	$ 5,800,852
Employees at end of year	110	108
Equipment Maintenance:		
Salaries and wages - regular	$ 1,528,340	$ 1,403,926
Salaries and wages - overtime	171,801	228,899
Salaries and wages - other	106,967	88,633
Benefits - Government contribution	504,974	512,630
Fringe benefits	100,184	95,149
Parts, materials and supplies	1,637,876	1,382,893
Repairs and maintenance	1,088,847	2,067,355
Miscellaneous	7,564	7,890
Total Equipment Maintenance	$ 5,146,553	$ 5,787,375
Employees at end of year	50	42

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, 2007 and 2006

	2007	2006
Transportation Services:		
Salaries and wages - regular	$ 1,888,840	$ 1,854,313
Salaries and wages - overtime	195,242	152,105
Salaries and wages - other	100,297	118,898
Benefits - Government contribution	693,304	729,246
Fringe benefits	141,080	123,355
Gas, oil and diesel	460,474	416,269
Miscellaneous	2,564	1,280
Total Transportation Services	$ 3,481,801	$ 3,395,466
Employees at end of year	59	59
Stevedoring Services:		
Salaries and wages - regular	$ 1,468,048	$ 1,409,124
Salaries and wages - overtime	243,153	221,171
Salaries and wages - other	67,193	69,496
Benefits - Government contribution	477,314	498,876
Fringe benefits	102,932	104,920
Miscellaneous	12,150	1,050
Total Stevedoring Services	$ 2,370,790	$ 2,304,637
Employees at end of year	51	52
Terminal Services:		
Salaries and wages - regular	$ 913,940	$ 958,996
Salaries and wages - overtime	92,089	79,989
Salaries and wages - other	19,363	19,294
Benefits - Government contribution	321,625	364,430
Fringe benefits	42,099	51,420
Miscellaneous	7,149	10,711
Total Terminal Services	$ 1,396,265	$ 1,484,840
Employees at end of year	28	28
Facility Maintenance:		
Salaries and wages - regular	$ 829,323	$ 765,900
Salaries and wages - overtime	23,828	10,188
Salaries and wages - other	10,823	10,093
Benefits - Government contribution	284,731	281,281
Fringe benefits	61,189	52,074
Parts, materials and supplies	85,137	100,530
Miscellaneous	35,796	48,346
Total Facility Maintenance	$ 1,330,827	$ 1,268,412
Employees at end of year	27	25

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, 2007 and 2006

	2007	2006
General Expenses:		
Workmen's compensation injury allowance	$ 356,299	$ 105,895
Professional services	179,396	178,059
Legal counsel	174,923	-
Shell manager's fee	127,870	145,259
Waste removal	54,449	55,442
Port incentive award	34,429	33,094
Audit	30,000	27,000
Agency fee	14,615	29,985
Board of Directors expense	4,300	-
Inventory loss	2,403	(2,453)
Claims and damages	2,000	12,168
GEDA land lease fee	-	106,111
Miscellaneous	41,433	65,992
Total General Expenses	$ 1,022,117	$ 756,552

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, 2007 and 2006

	2007	2006
Salaries and wages - regular	10,537,449	10,211,215
Salaries and wages - overtime	798,227	733,922
Salaries and wages - other	350,060	350,982
	$ 11,685,736	$ 11,296,119
Total employees at end of year	325	314

See accompanying independent auditors' report.