PORT OF GUAM
ATURIDAT I PUETTON GUAHAN
Jose D. Leon Guerrero Commercial Port
1026 Cabras Highway, Suite 201, Piti, Guam 96925
Telephone: 671-477-5931/35 Facsimile: 671-477-2689/4445
Website: *www.portguam.com*

Eddie Baza Calvo
Governor of Guam
Ray Tenorio
Lieutenant Governor

April 27, 2018

GH34-18-1830
Speaker Benjamin J.F. Cruz

The Honorable Benjamin J.F. Cruz
Speaker
IMina 'Trentai Kuattro Na Liheslaturan Guahan
163 Chalan Santo Papa
Hagatna, Guam 96910

MAY 01 2018
Time: 1052 [ ] AM [ ] PM File No.
Received By:

Dear Speaker Cruz:

Hafa Adai!

Attached is a copy of the Port Authority of Guam's Financial Statements & Compliance and Internal Control Report for year ended September 30, 2017.

Should you have any questions, please feel free to contact Mrs. Joann B. Conway, Acting Financial Affairs Controller at 477-5931/5 extension 352.

Sincerely,

JOANNE M.S. BROWN
General Manager

Cc: Deputy General Manager, *Admin. & Finance*
Acting Financial Affairs Controller

2018 MAY -1 PM 3:53

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Port of Guam, Jose D. Leon Guerrero Commercial Port is an Equal Employment Opportunity Employer.
Complaints of discrimination should be sent to the Human Resources Division.

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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2017 AND 2016

(AS RESTATED)

Deloitte.

Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3973
USA

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Port Authority of Guam:

Report on Financial Statements

We have audited the accompanying financial statements of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in note 8 to the financial statements, the Authority is a defendant in a claim filed by a former tenant (Guam YTK Corporation or YTK) of the Authority. The dispute was submitted to arbitration and in April 2016, the Arbitrators issued a decision in favor of YTK and awarded YTK approximately $14 million. In December 2016, the Superior Court of Guam denied the Authority's motion to vacate the Arbitration Award and granted YTK's Motion to Confirm the Award. In January 2018, the Authority filed a Motion to Dismiss in the Supreme Court of Guam. No provision has been recorded in the accompanying financial statements pending final resolution of this matter.

As discussed in Note 1 to the financial statements, in 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. As a result of adopting this standard, the Authority has elected to restate its 2016 financial statements to reflect the adoption of this standard.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 as well as the Schedules of Proportional Share of the Net Pension Liability on pages 45 through 47, the Schedule of Pension Contributions on page 48, and the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other Than Pensions on page 49 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte.

Other Matters, Continued

Other Financial Information

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

The schedules of operating expenses and summary of salaries and wages on pages 50 through 54 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses and summary of salaries and wages are fairly stated, in all material respects, in relation to the financial statements as a whole.

The schedule of employees by department on page 55 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deloitte & Touche LLP

April 19, 2018

Doc. No. 34GL-18-1830.

The following Management's Discussion and Analysis (MD&A) of the Port Authority of Guam (PAG, Port, Authority) provides an overview of the activities and financial performance for the fiscal years ended September 30, 2017 and 2016. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the accompanying notes which follow this section and are integral to the data contained in the financial statements.

ABOUT THE AUTHORITY

The Port Authority of Guam was established as a public corporation and an autonomous agency of the Government of Guam by Public Law 13-87 in October 1975. The Port operates the only commercial seaport in the Territory and is the primary seaport in Micronesia. It operates the largest U.S. deepwater port in the region and currently handles about 1-2 million tons of cargo a year. The Port owns 5 cargo-handling piers along with two fuel piers and three marinas. The cost of operations and capital improvements are funded largely from the Authority's own revenues.

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

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

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

FINANCIAL HIGHLIGHTS

- The net position of the Authority as of September 30, 2017 was $91 million. Of this amount, $102.2 million is net investment in capital assets, $8.4 million is considered restricted and $(19.6) million is considered unrestricted.
- The Port's net position increased by $4.1 million for fiscal year ended September 30, 2017.
- The Port's total assets increased by $7.2 million during the fiscal year ended September 30, 2017. The major component of this change was an increase in current assets.
- The total liabilities increased by $1.6 million during fiscal year ended September 30, 2017. The major component of this change was an increase in current liabilities.
- Since Fiscal Year 2003, the Port's finances have consistently showed an increase in net position for 15 straight years.

Overview of Financial Statements

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

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

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

Financial Analysis

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

In 2017, the Authority adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The implementation of this statement had a material effect on the accompanying financial statements resulting in the restatement of the Authority's fiscal year 2016 financial statements to reflect the reporting of pension liabilities, deferred inflows of resources and deferred outflows of resources for ad hoc COLAs and supplemental annuity payments and the recognition of pension expense in accordance with the provisions of GASB Statement No. 73. The 2016 financial statements were also restated due to changes in actuarial assumptions and other inputs used to determine the pension liabilities, deferred inflows of resources and deferred outflows of resources for the qualified pension plan. See note 1 to the financial statements.

Doc. No. 34GL-18-1830.

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

Condensed Statements of Net Position
(In thousands)

	2017	2016 (Restated)	2015 (Restated)
ASSETS			
Current and other assets	$ 47,525	$ 41,191	$ 31,407
Capital assets	123,830	122,948	125,091
Total assets	171,355	164,139	156,498
Deferred outflows of resources from pension	6,177	7,170	5,567
Total assets and deferred outflows of resources	$ 177,532	$ 171,309	$ 162,065
LIABILITIES AND NET POSITION			
Current liabilities	$ 7,523	$ 6,352	$ 6,102
Other non-current liabilities	77,963	77,554	70,190
Total liabilities	85,486	83,906	76,292
Deferred inflows of resources from pension	1,009	422	4,565
Net position:			
Net investment in capital assets	102,242	101,528	104,706
Restricted – expendable	8,382	5,531	4,257
Unrestricted	(19,587)	(20,078)	(27,755)
Total net position	91,037	86,981	81,208
Total liabilities, deferred inflows of resources and net position	$ 177,532	$ 171,309	$ 162,065

The Authority's total assets increased by $7.2 million during the fiscal year ended September 30, 2017, from $164.1 million in FY 2016 to $171.4 million in FY 2017.

The Port's current and other assets increased by $6.3 million or 15%, capital assets increased by $882 thousand or 1% which resulted in an overall increase in total assets. Total liabilities increased by $1.6 million or 2% from $83.9 million in FY 2016 to $85.5 million in FY 2017. This was primarily due to the increase in Port's current liabilities by $1.2 million or 18%. The net position increased by $4.1 million during the fiscal year ended September 30, 2017. Net position invested in capital assets net of related debt increased by $714 thousand, restricted net position increased by $2.9 million and unrestricted net position decreased by $491 thousand.

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

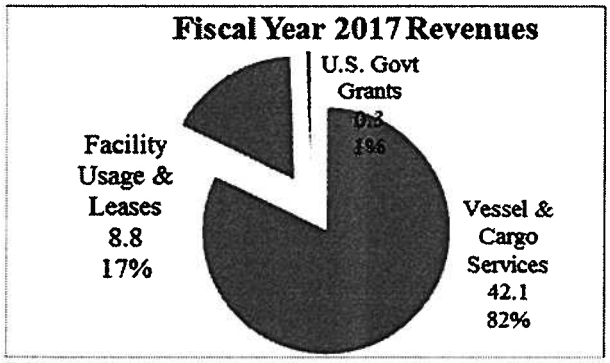
Port Authority of Guam
Changes in Net Position
(In thousands)

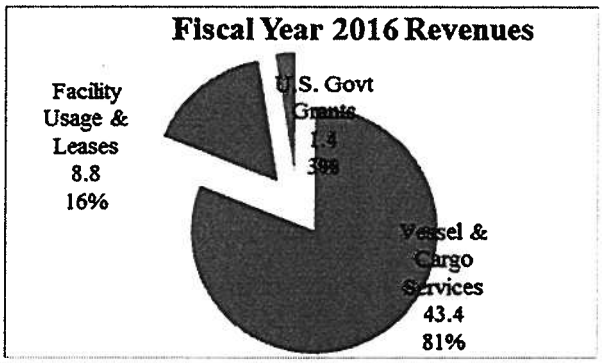
	2017	2016 (Restated)	2015
Operating revenues:			
Cargo throughput charges	$ 36,807	$ 38,206	$ 34,309
Wharfage charges	4,986	4,930	4,617
Equipment and space rental	8,769	8,753	8,563
Special services	224	226	263
Other operating revenue	108	93	919
Total operating revenue	50,894	52,208	48,671
Recovery of (provision for) bad debts	(141)	341	(222)
	50,753	52,549	48,449
Operating expenses:			
Operations	12,351	11,593	8,814
Equipment maintenance	5,641	5,447	4,903
Facility maintenance	1,987	1,665	1,294
Management and administration	10,822	10,039	7,145
Retiree health care benefits	1,971	1,938	2,790
General expenses	7,696	8,493	7,421
Total operating expenses before depreciation	40,468	39,175	32,367
Operating income before depreciation	10,285	13,374	16,082
Depreciation	6,103	6,145	4,817
Operating income	4,182	7,229	11,265
Nonoperating expenses, net	436	2,835	783
Income before capital contributions	3,746	4,394	10,482
Capital contributions-US Government Grants	310	1,379	51,476
Increase in net position	4,056	5,773	61,958
Net position at beginning of the year	86,981	81,208	31,615
Restatement of beginning net position	-	-	(12,365)
Net position at end of year	$ 91,037	$ 86,981	$ 81,208

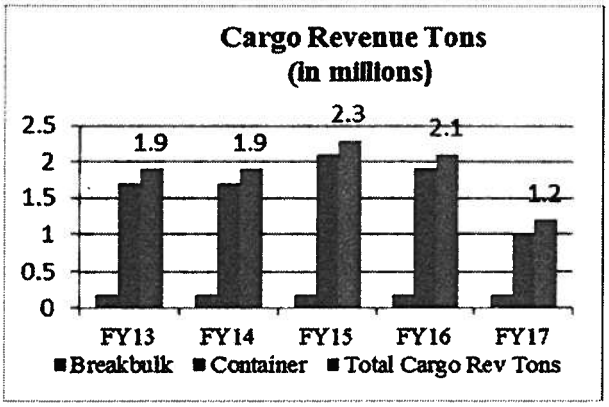
Revenues

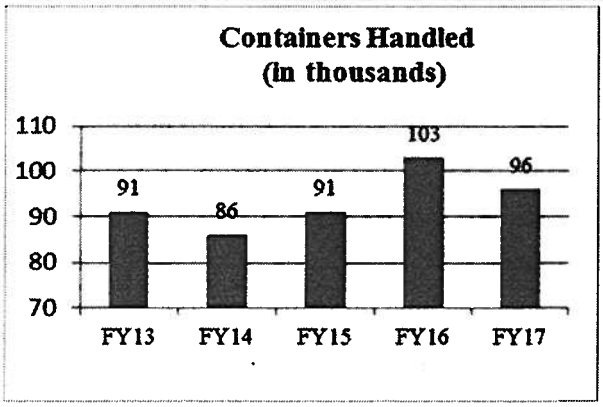
- PAG Docket 17-01, 5 Year Tariff was approved by the PUC on April 27, 2017. 1st year rates were implemented on June 1, 2017. The petition implemented a 7% increase to PAG's Terminal Tariff rates with the exception of the Bunkering/Fuel throughput/Waste Oil rates and the Crane Surcharge.
- Vessel and cargo services revenues in FY 2017 decreased by $1.4 million. The decrease was primarily due to 7% decrease in containers handled and 16% decrease in Breakbulk compared to FY2016.
- Facility usage and leases increased by $16 thousand, from FY 2016 to FY 2017.
- Federal contributions in FY 2017 decreased by $1.1 million, from $1.4 million in FY 2016 to $310 thousand in FY 2017. Decrease was a result of the completed federal projects in FY2016.

Vessel and cargo services in FY 2016 increased by $3.9 million compared to FY 2015 primarily due to the implementation of a rate increase and a cargo volume increase. PAG Docket 15-04, Multi Year Tariff Petition was approved by the PUC and rate was implemented on December 1, 2015.





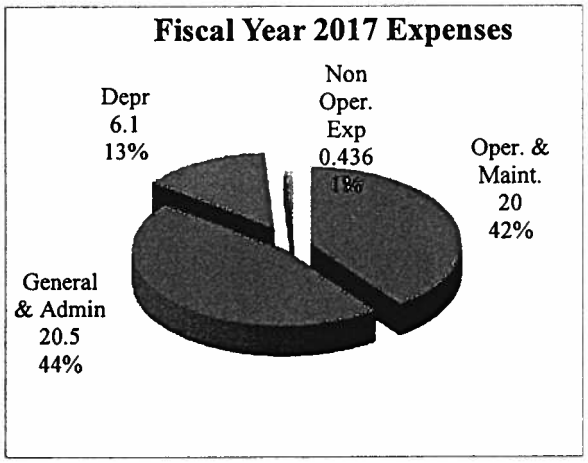


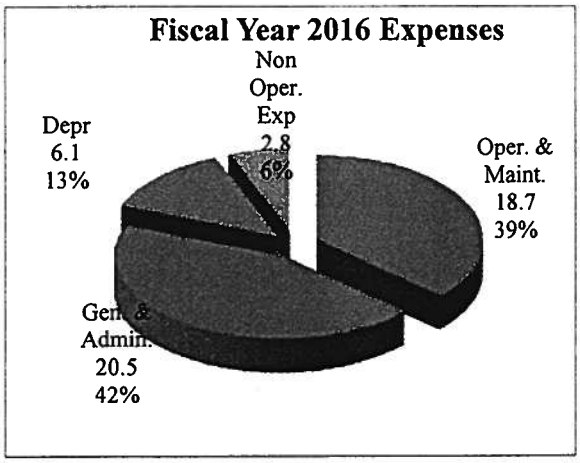


Expenses

In Fiscal Year 2017, total operating expenses were $40.5 million and non-operating expenses were $436 thousand. Operating expense increased by $1.3 million and non-operating expenses decreased $2.4 million compared to fiscal year 2016. Operating expenses for General Expense decreased $797 thousand, Management & Administration increased $783 thousand, Operations increased by $758 thousand. Non-operating expenses decreased by $2.4 million, due to loss on asset disposal in 2016. The major asset surveyed in fiscal year 2016 was Gantry 3.

In Fiscal Year 2016, total operating expenses were $39.2 million and non-operating expenses were $2.8 million. Operating expenses increased by $6.8 million and non-operating expenses increased by $2 million compared to fiscal year 2015.





Port Modernization Plan

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

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

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Authority's investment in capital assets as of September 30, 2017, totaled $124 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, office and cargo handling equipment, inventory and construction-in-progress. The total net increase in the Authority's investment in capital assets for the current fiscal year was $882 thousand or 1%.

Major capital asset activity during 2017 included the following:

- Building and wharf account increased by $9.8 million due to PAG Marine Service Life, Container Yard Striping and EQMR Canopies.
- Computer account increased by $4.7 million due to the implementation of the Terminal Operating System.
- Crane account increased by $1.3 million due to the acquisition of four (4) Toplifters.
- Tractor account increased by $1.5 million due to the acquisition of sixteen (16) Tractors.

Please refer to note 3 to the financial statements for additional details regarding capital asset activities during fiscal year 2017 and 2016.

Debt

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

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

In April 2014, the Port obtained a $10 million loan from BOG for the Service Life Extension project to repair and extend the life of the wharves, acquire multiple top lifter equipment and upgrade of its financial management system. Projects were completed in April 2017. The purchase of (4) new toplifters was processed and delivered in October 2016.

In July 2015, the Port obtained a $2 million USDA direct loan for the purchase of 8-Tractors, 4-5 ton forklifts, telescopic boom lift, compact articulated boom lift, industrial sweeper, and 2-portable dual operation welding machine. All equipment were received by January 2017.

The financial covenant of the loans require the following ratios:

a) Interest Coverage Ratio: For the $3.5 million ANZ Bank loan, PAG shall maintain an Interest Coverage Ratio of 1.5 to 1, calculated as follows:

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

b) Debt Service Coverage Ratio: For the two ANZ Bank loans, PAG shall maintain a Debt Service Coverage ratio of 1.30 to 1 and for the BOG loan, PAG shall maintain a Debt Service Coverage ratio of 1.20 to 1, calculated as follows:

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

The interest coverage ratio is 10.11 and the debt service coverage ratio is 3.93 for the year ended September 30, 2017.

Please refer to note 5 to the financial statements for additional details regarding financing activities during fiscal years 2017 and 2016.

Pending Litigation

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

On January 19, 2017, the Board of Directors duly passed a resolution authorizing legal counsel to defend the Port against the April 4, 2016 Arbitration Award and December 29, 2016 Superior Court of Guam Decision and Order. The Board further directed legal counsel to take this matter before the Supreme Court to protect the Port's interest. Legal Counsel submitted a brief for the appeal in January 2018.

FISCAL YEAR 2018 OUTLOOK

The following are the courses of action that the Port aims to accomplish or complete in FY 2018:

Bond Financing

PAG plans to issue revenue bonds in 2018 to provide funds for the purpose of financing or refinancing improvements and/or working capital relating to the Jose D. Leon Guerrero Commercial Port. The following are the capital projects under the 2013 Port Master Plan update and other projects identified by management to replace aging facilities.

- Rehabilitation of H-Wharf and Access Road (local share)
- Replacement of the Administration Building
- Waterline Relocation
- Warehouse I Building Repairs/Upgrades
- Equipment Maintenance & Repair (EQMR) Building
- Golf Pier Repairs

Doc. No. 34GL-18-1830.

Facility Maintenance Fee Projects

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

- A/E Services for Wheel Stopper, Storm Drainage System Repair & Gate House Repair
- Concrete Storm Drain Channel System Upgrade
- Container Yard Water Line Valves
- Container Yard Asphalt Pavement Repairs
- Installation of 61 Additional Reefer Outlets
- Replacement of 4,000 Gallon Surface Diesel Fuel Tank with an 8,000 Gallon Tank

Port Security Grant Program (PSGP)

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

- PAG was awarded the 2015 PSGP for two projects: 1) procure maintenance and sustainment contract for its CCTV and Access Control Systems, and 2) install additional security lights at various strategic port locations, specifically 4 new container yard security light poles and exterior high output lighting fixtures at the Warehouse I and Cabras Marine buildings.
- PAG was awarded the 2016 PSGP for two projects: 1) procurement of additional cameras for Hagatna Marina, Agat Marina, and the Port, and 2) Phase III supplemental lighting project for Industrial Road, roadway heading to H-Wharf, and other strategic Port locations.
- PAG was recently awarded the 2017 PSGP for three projects: 1) Refurbishment and Hardening of Load Center Buildings Housing Prime Generators, 2) Maintenance and Sustainment Contract for Prime Power Generators and 3) U.S. Coast Guard-endorsed NASBLA Tactical Operator's Course for Port Police.

Other Marina and Harbor of Refuge Projects

- Agat Marina demolition of B Dock under the Department of Agriculture Sport Fish Restoration Program. The Port anticipates to complete this project by September 2018.
- Renovation of the Guam Harbor of Refuge-Architectural and Engineering Design including Environmental Study Phase for the moorings was completed on September 2015 under Boating Infrastructure Grant Program Tier1. U.S. Wildlife Fisheries Service requested an additional site assessment be performed to the actual moorage system, this was completed in November 2016. Architectural and Engineering Design of the pump-out system with shelter was completed in February 2017. Procurement and construction of pump out facility is anticipated to commence in mid-2018.

H-Wharf

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

TIGER grants are one of the few federal funding programs available to public port authorities to help pay for critical infrastructure to move and handle freight more efficiently. $61.8 million are going to six (6) commercial seaports. The Port was one of the six ports in the nation to receive TIGER grant to help pay for critical infrastructure. The Port plans to use bond funding for its matching share. PAG anticipates project to commence in mid-2018.

CONTACTING THE PORT'S FINANCIAL MANAGEMENT

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

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in the report on the audit of financial statements which is dated February 13, 2017. That Discussion and Analysis explains in more detail major factors impacting the 2016 financial statements. A copy of that report can be obtained via the contact below.

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

Doc. No. 34GL-18-1830.

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

Statements of Net Position
September 30, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016 As restated (Note 1)
Current assets:		
Cash and cash equivalents - unrestricted	$ 30,881,981	$ 30,241,527
Cash and cash equivalents - restricted expendable	8,382,257	5,530,865
Total cash and cash equivalents	39,264,238	35,772,392
Accounts receivable, net of allowance for doubtful accounts of $563,854 and $551,948 in 2017 and 2016, respectively	7,075,677	4,892,405
Federal receivables	704,549	180,601
Prepaid expenses	15,874	62,315
Total current assets	47,060,338	40,907,713
Replacement parts inventories, net of allowance for obsolescence of $77,364 and $70,782 in 2017 and 2016, respectively	464,832	282,884
Depreciable property, plant and equipment, net	117,438,696	104,433,310
Nondepreciable property, plant and equipment	6,391,706	18,514,993
Total assets	171,355,572	164,138,900
Deferred outflows of resources from pension	6,176,940	7,169,958
Total assets and deferred outflows of resources	$ 177,532,512	$ 171,308,858
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Current portion of long-term bank debt	$ 2,350,902	$ 1,788,527
Accounts payable, trade and others	2,568,562	1,875,663
Security deposits and other payables	389,498	390,189
Accrued payroll and withholdings	779,339	665,854
Current portion of accrued annual leave	1,232,707	1,136,453
Unearned revenue	201,802	495,729
Total current liabilities	7,522,810	6,352,415
Long-term bank debt, net of current portion	18,858,975	18,044,897
Net pension liability	56,767,410	57,457,304
Accrued annual leave, net of current portion	444,045	401,958
Accrued sick leave	1,893,141	1,649,857
Total liabilities	85,486,381	83,906,431
Deferred inflows of resources from pension	1,008,960	422,187
Commitments and contingencies		
Net position:		
Net investment in capital assets	102,242,086	101,527,633
Restricted - expendable	8,382,257	5,530,865
Unrestricted	(19,587,172)	(20,078,258)
Total net position	91,037,171	86,980,240
Total liabilities, deferred inflows of resources and net position	$ 177,532,512	$ 171,308,858

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016 As restated (Note 1)
Operating revenues:		
Cargo throughput charges	$ 30,714,755	$ 31,921,115
Equipment and space rental	8,768,740	8,753,079
Crane surcharge	6,092,371	6,284,894
Wharfage charges	4,986,049	4,930,170
Special services	223,791	225,560
Other operating income	108,227	92,951
	50,893,933	52,207,769
(Provision for) recovery of bad debts	(141,322)	341,007
	50,752,611	52,548,776
Operating expenses:		
Management and administration	10,821,867	10,039,097
Depreciation	6,103,304	6,144,649
Equipment maintenance	5,640,444	5,447,083
Transportation services	5,549,586	4,984,454
Stevedoring services	3,992,789	3,933,650
General expenses	3,733,610	4,788,404
Terminal services	2,808,718	2,675,823
Insurance	2,509,713	2,193,100
Facility maintenance	1,986,947	1,664,968
Retiree healthcare and other benefits	1,971,339	1,938,035
Utilities	1,451,907	1,511,229
Total operating expenses	46,570,224	45,320,492
Earnings from operations	4,182,387	7,228,284
Nonoperating (expenses) revenues:		
U.S. Government operating grants	835,873	793,913
Other income (expense), net	6,767	26,532
Interest (expense) income, net	(1,060,269)	(984,882)
Loss on disposal of property, plant and equipment	(218,269)	(2,670,887)
Total nonoperating expenses, net	(435,898)	(2,835,324)
Earnings before capital contributions	3,746,489	4,392,960
Contributed capital:		
U.S. Government grants	310,442	1,379,189
Increase in net position	4,056,931	5,772,149
Net position at beginning of year	86,980,240	81,208,091
Net position at end of year	$ 91,037,171	$ 86,980,240

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016 As restated (Note 1)
Cash flows from operating activities:		
Cash received from customers	$ 48,275,412	$ 55,043,571
Cash payments to suppliers for goods and services	(10,218,376)	(12,210,631)
Cash payments to employees for services and benefits	(28,306,836)	(26,835,820)
Net cash provided by operating activities	9,750,200	15,997,120
Cash flows from investing activity - interest received	55,439	68,145
Cash flows from capital and related financing activities:		
Capital grants received	184,716	132,370
Proceeds from long-term bank debt	3,130,450	2,503,530
Repayment of long-term bank debt	(1,753,997)	(1,055,193)
Interest paid	(1,115,708)	(1,053,027)
Purchase of property, plant and equipment	(7,203,672)	(5,159,744)
Net cash used in capital and related financing activities	(6,758,211)	(4,632,064)
Cash flows from non-capital related financing activities:		
Operating grants received	437,651	793,913
Other non-capital activities	6,767	26,532
Cash provided by non-capital related financing activities	444,418	820,445
Net increase in cash and cash equivalents	3,491,846	12,253,646
Cash and cash equivalents at beginning of year	35,772,392	23,518,746
Cash and cash equivalents at end of year	$ 39,264,238	$ 35,772,392

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued
Years Ended September 30, 2017 and 2016

	2017	2016 As restated (Note 1)
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	$ 4,182,387	$ 7,228,284
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	6,103,304	6,144,649
Provision for (recovery of) bad debts	141,322	(341,007)
Pension cost	889,897	612,836
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,324,594)	2,743,508
Prepaid expenses	46,441	(44,096)
Replacement parts inventories, net	(181,948)	(154,377)
Accounts payable, trade and others	692,899	(697,531)
Security deposits and other payables	(691)	42,771
Accrued payroll and withholdings	113,485	113,594
Accrued annual leave	138,341	81,781
Unearned revenue	(293,927)	92,294
Accrued sick leave	243,284	174,414
Net cash provided by operating activities	$ 9,750,200	$ 15,997,120

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

See accompanying notes to financial statements.

Doc. No. 34GL-18-1830.

(1) Organization and Summary of Significant Accounting Policies

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

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

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

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

Basis of Accounting

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

Operating and Nonoperating Revenues and Expenses

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

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

Net Position

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

Net investment in capital assets:

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

Restricted:

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

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

All of the Authority's restricted net position at September 30, 2017 and 2016 is expendable.

Unrestricted:

Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

Substantially all of the Authority's accounts receivable as of September 30, 2017 and 2016 are due from international steamship lines/agents which are located or operating on Guam.

The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 30 days from the date of billing. As of September 30, 2017 and 2016, receivables that are more than thirty days past due totaled $1,991,313 and $1,244,328, respectively. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Uncollectible accounts are written-off against the allowance or are charged to expense in the period the Authority deems the accounts to be uncollectible.

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

Replacement Parts Inventories

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

Property, Plant and Equipment and Depreciation

Land is recorded at its appraised value on the date of transfer from the Government of Guam. Buildings and structures are stated at cost, which includes interest during the construction period. Equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 40 years for buildings and equipment). Current policy is to capitalize individual purchases over $1,000 with useful lives exceeding one year. Normal maintenance and repairs are charged to operating expense as incurred; expenditures for major additions, improvements, infrastructure and replacements are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal with the resulting gain or loss credited or charged to nonoperating revenue or expense, respectively.

Compensated Absences

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

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

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

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

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

The statutes further amended the maximum accumulation of such vacation credits from 480 to 320 hours. Public Law No. 27-106 allows employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, to carry over their excess and to use the excess amount of leave prior to retirement or termination from service or they may credit not more than 100 excess hours to sick leave. However, at retirement, lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours is not allowed.

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

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

Pensions

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Taxes

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

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

Risk Management

The Authority has commercial insurance coverage for directors' and officers' liability, comprehensive liability, employee dishonesty and forgery, money and securities loss, and automobile injury and property damage. Worker's compensation is managed through the local Department of Labor under the Government of Guam Special Fund (Special Fund); however, the Authority reimburses the Special Fund for the costs of claims. The Authority also has commercial property insurance coverage for 100% of the total net book value of property, plant and equipment, subject to deductibles. The Authority incurred no casualty losses in excess of insurance coverage during the years ended September 30, 2017, 2016 and 2015.

Estimates

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

New Accounting Standards

During the year ended September 30, 2017, the Authority implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The implementation of this statement had a material effect on the accompanying financial statements resulting in the restatement of the Authority's fiscal year 2016 financial statements to reflect the reporting of pension liabilities, deferred inflows of resources and deferred outflows of resources for ad hoc COLAs and supplemental annuity payments and the recognition of pension expense in accordance with the provisions of GASB Statement No. 73. The 2016 financial statements were also restated as follows due to changes in actuarial assumptions and other inputs used to determine the pension liabilities, deferred inflows of resources and deferred outflows of resources for the qualified pension plan.

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

New Accounting Standards, Continued

	As Previously Reported	Adjustment	As Restated
As of October 1, 2015:			
Net position	$ 93,572,497	$ (12,364,406)	$ 81,208,091
For the year ended September 30, 2016:			
Change in net position	$ 7,092,301	$ (1,320,152)	$ 5,772,149
As of September 30, 2016:			
Deferred outflows of resources from pension	$ 5,292,446	$ 1,877,512	$ 7,169,958
Net pension liability	$ (42,317,421)	$ (15,139,883)	$ (57,457,304)
Deferred inflows of resources from pension	$ -	$ (422,187)	$ (422,187)
Net position	$ 100,664,798	$ (13,684,558)	$ 86,980,240

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Except for GASB Statement No. 73, the implementation of these statements did not have a material effect on the Authority's financial statements.

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

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Based on an actuarial valuation dated October 1, 2015, the net OPEB obligation that the Authority will record upon implementation of Statement 75 is anticipated to be $38,932,903 as of September 30, 2017.

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

(2) Deposits

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

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

As of September 30, 2017 and 2016, the carrying amount of the Authority's cash and cash equivalents totaled $39,264,238 and $35,772,392, respectively, and the corresponding bank balances were $39,268,752 and $35,590,533, respectively, all of which were maintained in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2017 and 2016, bank deposits in the amount of $500,000 were FDIC insured for both years. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(3) Property, Plant and Equipment

A summary of changes in property, plant and equipment for the years ended September 30, 2017 and 2016 is as follows:

	Beginning Balance October 1, 2016	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2017
Depreciable:				
Buildings	$ 131,289,544	$ 9,877,234	$ -	$ 141,166,778
Equipment	25,465,931	9,430,525	(1,462,677)	33,433,779
	156,755,475	19,307,759	(1,462,677)	174,600,557
Less accumulated depreciation	(52,322,165)	(6,103,304)	1,263,608	(57,161,861)
	104,433,310	13,204,455	(199,069)	117,438,696
Non-depreciable:				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	14,951,993	2,341,019	(14,464,306)	2,828,706
	18,514,993	2,341,019	(14,464,306)	6,391,706
Total	$ 122,948,303	$ 15,545,474	$ (14,663,375)	$ 123,830,402

(3) Property, Plant and Equipment, Continued

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

(4) Employees' Retirement Plans

A. General Information About the Pension Plans:

Defined Benefit Plan

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

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

Plan Membership: As of September 30, 2016, the most recent measurement date, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,298
Terminated employees entitled to benefits but not yet receiving them	4,463
Current members	2,208
	13,969

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or $6,000, whichever is greater.

(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

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

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

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

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

Contributions and Funding Policy: Contribution requirements of participating employers and active members are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example, the September 30, 2015 actuarial valuation was used for determining the year ended September 30, 2017 statutory contributions. Member contributions are required at 9.55% of base pay (9.54% in 2016).

As a result of actuarial valuations performed as of September 30, 2015, 2014, and 2013, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2017, 2016 and 2015, respectively, have been determined as follows:

(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

	2017	2016	2015
Normal costs (% of DB Plan payroll)	16.27%	15.86%	15.92%
Employee contributions (DB Plan employees)	9.55%	9.54%	9.55%
Employer portion of normal costs (% of DB Plan payroll)	6.72%	6.32%	6.37%
Employer portion of normal costs (% of total payroll)	1.87%	1.94%	2.05%
Unfunded liability cost (% of total payroll)	21.60%	22.42%	24.09%
Government contribution as a % of total payroll	23.47%	24.36%	26.14%
Statutory contribution rates as a % of DB Plan payroll:			
Employer	27.41%	28.16%	29.85%
Employee	9.55%	9.54%	9.55%

The Authority's contributions to the DB Plan for the years ended September 30, 2017, 2016 and 2015 totaled $1,327,533, $1,343,278 and $1,484,519, respectively, which are equal to the required contributions for those years.

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

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	14.58 years
Asset Valuation Method:	3-year smoothed market value
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Expected Rate of Return:	7.00%
Discount Rate:	6.70%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.

Doc. No. 34GL-18-1830.

(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Defined Benefit Plan, Continued

Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

Discount Rate: The total pension liability is calculated using a discount rate that is a blend of the expected investment rate of return and a high quality bond index rate. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except ad hoc cost-of-living adjustments (COLA) and supplemental annuity (SA) payments to DB retirees. The rate of return of a high quality bond index applies to the ad hoc COLAs and supplemental annuity payments to DB retirees, which are not funded by plan assets. The blended rate calculated as described above is 6.70%.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.70%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate 5.70%	Current Discount Rate 6.70%	1% Increase in Discount Rate 7.70%
Net Pension Liability	$ 53,400,201	$ 43,796,523	$ 35,530,359

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

Plan Description: The Authority participates in the GovGuam ad hoc COLA/supplemental annuity plan for DB retirees, a single-employer defined benefit pension plan administered by the GGRF. The Authority considers this as a separate pension plan for DB retirees. A single actuarial calculation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for this plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Plan Membership: The plan membership is the same as the DB plan described above.

(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees, Continued

Benefits Provided, Contributions and Funding Policy: Ad hoc COLA and supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature, but are funded on a "pay-as-you-go" basis so there is no plan trust. Ad hoc COLAs are made through annual allocations to provide DB Plan retired members and spouse survivors with COLA payments of $2,000 per year. In addition, DB Plan retired members and survivors whose benefits commenced prior to October 1, 1995, have received supplemental annuity payments in the amount of $4,238 per year, but not to exceed $40,000 per year when combined with their regular annual retirement annuity. It is anticipated that ad hoc COLA and supplemental annuity payments will continue to be made for future years at the same level currently being paid.

The Authority's contributions to the Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees for the years ended September 30, 2017, 2016 and 2015 were $979,915, $1,018,210 and $1,040,560, respectively, which were equal to the statutorily required contributions.

Actuarial Assumptions: The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Discount Rate:	6.70%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.

Doc. No. 34GL-18-1830.

(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees, Continued

Other information: Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

Discount Rate: The total pension liability is calculated using a discount rate that is a blend of the expected investment rate of return and a high quality bond index rate. The expected investment rate of return applies to benefit payments that are funded by plan assets (including future contributions), which includes all plan benefits except ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments to DB retirees. The rate of return of a high quality bond index applies to the ad hoc COLAs and supplemental annuity payments to DB retirees, which are not funded by plan assets. The blended rate calculated as described above is 6.70%.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.70%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate 5.70%	Current Discount Rate 6.70%	1% Increase in Discount Rate 7.70%
Net Pension Liability	$ 10,501,479	$ 9,759,549	$ 9,102,783

Ad Hoc COLA Plan for DCRS Retirees

Plan Description: The Authority participates in the GovGuam ad hoc COLA plan for DCRS retirees, a single-employer defined benefit pension plan administered by the GGRF. The Authority considers this as a separate pension plan for DCRS retirees. A single actuarial calculation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for this plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Plan Membership: As of September 30, 2016, the most recent measurement date, plan membership consisted of 8,858 active DCRS participants.

Benefits Provided, Contributions and Funding Policy: Ad hoc COLA benefits, contributions and funding policy are the same as those for DB retirees.

The Authority's contributions to the Ad Hoc COLA Plan for DCRS Retirees for the years ended September 30, 2017, 2016 and 2015 were $82,000, $74,000 and $68,000, respectively, which were equal to the statutorily required contributions.

(4) Employees' Retirement Plans, Continued

A. General Information About the Pension Plans, Continued:

Ad Hoc COLA Plan for DCRS Retirees, Continued

Actuarial Assumptions: The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Discount Rate:	3.058%
Retirement age:	5% per year from age 55 to 64, 10% per year from age 65 to age 74, 100% at age 75
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

Discount Rate: The total pension liability is calculated using a discount rate of 3.058% that is the high quality bond index rate. The rate of return of a high quality bond index applies to benefit payments that are not funded by plan assets.

Discount Rate Sensitivity Analysis: The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.058%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate 2.058%	Current Discount Rate 3.058%	1% Increase in Discount Rate 4.058%
Net Pension Liability	$ 3,668,262	$ 3,211,338	$ 2,822,541

(4) Employees' Retirement Plans, Continued

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

Pension Liability: At September 30, 2017 and 2016, the Authority reported a net pension liability for its proportionate shares of the GovGuam net pension liabilities which comprised of the following:

	2017	2016
Defined benefit plan	$ 43,796,523	$ 44,375,587
Ad hoc COLA/supplemental annuity plan for DB retirees	9,759,549	10,037,574
Ad hoc COLA plan for DCRS retirees	3,211,338	3,044,143
	$ 56,767,410	$ 57,457,304

The Authority's proportion of the GovGuam net pension liabilities was based on projection of the Authority's long-term share of contributions to the pension plans relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2017 and 2016, the Authority's proportionate shares of the GovGuam net pension liabilities were as follows:

	2017	2016
Defined benefit plan	3.20%	3.09%
Ad hoc COLA/supplemental annuity plan for DB retirees	4.25%	4.26%
Ad hoc COLA plan for DCRS retirees	5.21%	5.84%

Pension Expense: For the years ended September 30, 2017 and 2016, the Authority recognized pension expense from the above pension plans as follows:

	2017	2016
Defined benefit plan	$ 5,165,848	$ 4,753,162
Ad hoc COLA/supplemental annuity plan for DB retirees	719,925	700,508
Ad hoc COLA plan for DCRS retirees	241,934	249,839
	$ 6,127,707	$ 5,703,509

Doc. No. 34GL-18-1830.

(4) Employees' Retirement Plans, Continued

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

Deferred Outflows and Inflows of Resources: At September 30, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017					
	Defined Benefit Plan		Ad Hoc COLA/SA Plan for DB Retirees		Ad Hoc COLA Plan for DCRS Retirees	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 144,281	$ 764	$ -	$ 61,988	$ 27,030
Net difference between projected and actual earnings on pension plan investments	-	229,077	-	-	-	-
Changes of assumptions	124,701	-	10,067	-	350,709	-
Contributions subsequent to the measurement date	4,210,492	-	979,915	-	82,000	-
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	356,304	-	-	2,196	-	606,376
	$ 4,691,497	$ 373,358	$ 990,746	$ 2,196	$ 494,697	$ 633,406

	2016 (as restated)					
	Defined Benefit Plan		Ad Hoc COLA/SA Plan for DB Retirees		Ad Hoc COLA Plan for DCRS Retirees	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 530,712	$ -	$ -	$ 21,945	$ -	$ 32,324
Net difference between projected and actual earnings on pension plan investments	478,202	-	-	-	-	-
Changes of assumptions	596,147	-	51,012	-	138,143	-
Contributions subsequent to the measurement date	4,017,046	-	1,018,210	-	74,000	-
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	266,486	-	-	42,128	-	325,790
	$ 5,888,593	$ -	$ 1,069,222	$ 64,073	$ 212,143	$ 358,114

(4) Employees' Retirement Plans, Continued

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

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2017 will be recognized in pension expense as follows:

Year Ending September 30	Defined Benefit Plan	Ad Hoc COLA/SA Plan for DB Retirees	Ad Hoc COLA Plan for DCRS Retirees
2018	$ (170,159)	$ 8,635	$ (14,509)
2019	116,311	-	(14,509)
2020	407,777	-	(14,509)
2021	(246,282)	-	(14,509)
2022	-	-	(14,509)
Thereafter	-	-	(148,164)
	$ 107,647	$ 8,635	$ (220,709)

Defined Contribution Retirement System (DCRS)

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

Statutory employer contributions for the DCRS plan for the years ended September 30, 2017 and 2016, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS plan are always 100% vested in their own contributions, plus earnings thereon. Upon completion of five years of governmental service, as defined, DCRS members are 100% vested in employer contributions plus any earnings thereon.

The Authority's contributions for the DCRS plan payroll for the years ended September 30, 2017, 2016 and 2015 were $3,548,584, $3,251,007 and $3,250,299, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, $2,882,959, $2,673,768 and $2,688,140 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2017, 2016 and 2015, respectively.

Public Law 26-86 allows members of the DCRS plan to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The Authority has accrued an estimated liability of $1,893,141, $1,649,857 and $1,475,443 at September 30, 2017, 2016 and 2015, 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.

Doc. No. 34GL-18-1830.

(4) Employees' Retirement Plan, Continued

Other Post-Employment Benefits

Plan Description: GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides postemployment medical, dental and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. 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.

Funding Policy: GovGuam contributes to the Plan a portion of the medical and dental premiums based on a schedule of semi-monthly rates provided through insurance companies, with GovGuam's contribution amount set each year at renewal. Retirees are also required to pay a portion of the medical and dental insurance premiums. Medical coverage continues to the spouse after the death of the retiree provided the spouse makes the required contributions. Retirees and covered spouses are eligible for a $10,000 life insurance benefit. Retirees do not share in the cost of this benefit. Monthly life insurance premium is $15.52 per covered life.

For the years ended September 30, 2017, 2016 and 2015, the Authority reimbursed GovGuam for its contributions to the abovementioned Plan of $1,971,339, $1,938,035 and $1,681,679, respectively, which were equal to the statutorily required contributions.

PAG's net OPEB obligation at September 30, 2017, 2016 and 2015 for the above mentioned Plan is as follows:

2017	2016	2015
$ 38,932,903	$ 34,129,969	$ 29,497,000

Defined Benefit 1.75 Retirement System (the DB 1.75 Plan) and the Guam Retirement Security Plan (GRSP)

In September 2016, Public Law 33-186 was enacted to create two new government retirement plans; the DB 1.75 Plan and the GRSP. Beginning January 1, 2018, the DB 1.75 Plan and GRSP are to become the primary retirement systems for all new hires.

The DB 1.75 Plan is open for participation by certain existing employees, new employees, and reemployed employees who would otherwise participate in the DCRS Plan or the new GRSP and who make election on a voluntary basis to participate in the DB 1.75 Plan by December 31, 2017. Employee contributions are made by mandatory pre-tax payroll deductions at the rate of 9.5% of the employee's base salary while employer contributions are actuarially determined. Members of the DB 1.75 Plan automatically participate in the GovGuam deferred compensation plan, pursuant to which employees are required to contribute 1% of base salary as a pre-tax mandatory contribution.

(4) Employees' Retirement Plan, Continued

Defined Benefit 1.75 Retirement System (the DB 1.75 Plan) and the Guam Retirement Security Plan (GRSP), Continued

The GRSP will be the primary retirement plan for new employees beginning January 1, 2018, unless the employee elects to participate in the DCRS Plan within 60 days of the employee's hire date. Certain existing and reemployed employees are also provided a limited opportunity to participate in the GRSP. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 6.2% of the employee's base salary. The employer makes matching contributions at the same rate of 6.2% of the employee's base salary.

(5) Long-Term Liabilities

Summary

Long-term liabilities of the Authority consist of annual leave and sick leave payable to its employees, net pension liability and long-term bank debt. Changes in long-term liabilities for the years ended September 30, 2017 and 2016 are as follows:

	Outstanding at September 30, 2016 (as restated)	Increases	Decreases	Outstanding at September 30, 2017	Current	Noncurrent
Accrued annual leave	$ 1,538,411	$ 1,553,943	$ 1,415,602	$ 1,676,752	$ 1,232,707	$ 444,045
Accrued sick leave	1,649,857	875,492	632,208	1,893,141	-	1,893,141
Long-term bank debt	19,833,424	3,130,450	1,753,997	21,209,877	2,350,902	18,858,975
Net pension liability	57,457,304	4,419,362	5,109,256	56,767,410	-	56,767,410
	$ 80,478,996	$ 9,979,247	$ 8,911,063	$ 81,547,180	$ 3,583,609	$ 77,963,571

	Outstanding at September 30, 2015 (as restated)	Increases (as restated)	Decreases	Outstanding at September 30, 2016 (as restated)	Current	Noncurrent
Accrued annual leave	$ 1,456,630	$ 1,216,027	$ 1,134,246	$ 1,538,411	$ 1,136,453	$ 401,958
Accrued sick leave	1,475,443	677,423	503,009	1,649,857	-	1,649,857
Long-term bank debt	18,385,087	2,503,530	1,055,193	19,833,424	1,788,527	18,044,897
Net pension liability	51,098,271	11,640,251	5,281,218	57,457,304	-	57,457,304
	$ 72,415,431	$ 16,037,231	$ 7,973,666	$ 80,478,996	$ 2,924,980	$ 77,554,016

(5) Long-Term Liabilities, Continued

Long-Term Bank Debt

Long-term bank debt consists of the following at September 30, 2017 and 2016:

	2017	2016
• $2,000,000 loan obtained from United States Department of Agriculture (USDA) on July 15, 2015. The loan bears interest at 3.625% and is payable in monthly principal and interest installments of $27,000 over seven years. Proceeds of the loan were used to fund the acquisition of cargo handling equipment, which is also pledged as collateral for the loan.	$ 1,434,000	$ 1,700,752
• Two loans not to exceed a total of $10,000,000 obtained from Bank of Guam on April 3, 2014. One loan (SLE Loan) was used for the purpose of funding the cost of service life extension repairs to berths and wharves. The other loan (Purchase Loan) was used for funding the cost of software acquisition for the purpose of upgrading the financial management system and of equipment purchases. Each loan bears interest at 2.55% above the Federal Home Loan Bank of Seattle Long Term 5-year amortizing fixed rate in effect from time to time or 3.75% whichever is greater. The interest rate shall be adjusted on the fifth anniversary. At September 30, 2017 and 2016, the SLE and Purchase Loans bear interest at 4.14% and 3.94%, respectively. Each loan is payable in ten years from drawdown dates with only interest due for the first two years. The outstanding principal balances of the SLE and Purchase Loans as of September 30, 2017 are $5,396,840 and $2,829,050, respectively. The outstanding principal balances of the SLE and Purchase Loans as of September 30, 2016 are $4,732,794 and $1,000,000, respectively.	8,225,890	5,732,794
• $12,000,000 loan obtained from ANZ Guam, Inc. (ANZ) on December 20, 2012, guaranteed by USDA. The term loan bears interest at 3.42% above the Federal Home Loan Bank of Seattle's 15-year amortizing rate at the time of funding (5.94% at September 30, 2017 and 2016) and is payable in monthly principal and interest installments of $101,427 over fifteen years. Proceeds of the loan were used to finance the acquisition of the used cranes identified as Port of Los Angeles Cranes and Gantry Cranes (collectively the "cranes") which are also pledged as collateral for the loan.	9,288,632	9,925,985

(5) Long-Term Liabilities, Continued

Long-Term Bank Debt, Continued

	2017	2016
• $3,500,000 loan obtained from ANZ on October 22, 2010, representing a portion of the $4,500,000 USDA Guaranteed Term Loan. The term loan bears interest at 3% above the Federal Home Loan Bank of Seattle's 15-year amortizing fixed advanced rate at the time of funding (6.18% at September 30, 2017 and 2016) and is payable in monthly principal and interest installments of $30,049 over fifteen years. Proceeds of the loan were used to reimburse the Authority for the acquisition of four top lifters and ten terminal yard contractors which are also pledged as collateral for the loan.	2,261,355	2,473,893
	21,209,877	19,833,424
Less current portion	2,350,902	1,788,527
	$ 18,858,975	$ 18,044,897

As of September 30, 2017, future maturities of long-term bank debt are as follows:

Year Ending September 30,	Principal	Interest	Total Debt Service
2018	$ 2,350,902	$ 1,037,373	$ 3,388,275
2019	2,450,323	922,944	3,373,267
2020	2,568,435	804,832	3,373,267
2021	2,697,022	676,245	3,373,267
2022	2,775,376	543,292	3,318,668
2023 through 2027	8,088,173	1,098,720	9,186,893
2028	279,646	3,020	282,666
	$ 21,209,877	$ 5,086,426	$ 26,296,303

Cargo throughput and wharfage revenues totaling $35,700,804 and $36,851,285 for the years ended September 30, 2017 and 2016, respectively, have been pledged as security for the SLE and Purchase Loans. The SLE Loan is also collateralized by the facility maintenance fee revenues which are deposited in a special fund with a balance of $3,175,465 and $2,708,032 as of September 30, 2017 and 2016, respectively.

The Authority is required to maintain a reserve account at the sum of principal and interest due and the aggregate amount of payments to become due in the next 90 days. The balance in the reserve account at September 30, 2017 and 2016 is $323,160 and $322,756, respectively.

(6) Major Customers

For the years ended September 30, 2017 and 2016, the Authority has two major shipping agency customers that collectively accounted for 59.11% and 65.43% of total operating revenues, respectively. The Authority has a high concentration of credit risk due to the limited number of entities comprising its customer base.

(7) Rental Operations

The Authority, in cooperation with the GEDA, leases space to tenants under noncancelable operating leases, with options to renew, providing for future minimum rentals. The minimum future rentals on noncancelable operating leases for the five succeeding fiscal years and thereafter, are as follows:

Year Ending September 30,	Amount
2018	$ 1,122,057
2019	1,122,057
2020	921,338
2021	314,544
2022	238,164
Thereafter	1,706,842
	$ 5,425,002

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

Total equipment and lease space revenue from tenants for all rentals totaled $8,768,740 and $8,753,079 for the years ended September 30, 2017 and 2016, respectively.

(8) Commitments and Contingencies

Port Modernization Plan

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

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

Doc. No. 34GL-18-1830.

(8) Commitments and Contingencies, Continued

Port Modernization Plan, Continued

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

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

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

Appropriation from the USDOD:

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

The Authority segregated the construction funded by the $50,000,000 USDOD appropriation into three phases. In 2015, all three phases have been completed and capitalized with a total cost of $54,000,000; $48,200,000 of which came from the USDOD appropriation and $5,800,000 relates to consultants' charges. A dashboard project expenditure summary was provided to the Authority by MARAD and was used as the basis for recording $48,200,000 of capital assets. In 2016, the Authority received an updated dashboard project expenditure summary from MARAD showing a revised total cost of $47,300,000. An adjustment of $900,000 to capital assets was made to reflect the updated project cost. There were no significant changes in the dashboard project expenditure summary provided by MARAD as of September 30, 2017. The Authority expects to receive the close-out documents from MARAD and changes in such expenditure details, if any, will be accounted for prospectively in the financial statements.

The remaining $2,700,000 of USDOD funds are reprogrammed for the maintenance of the capital assets and for acquisition of equipment.

Appropriations from the USDA:

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

Due to changes in certain factors relating to the military buildup and cargo forecast, the Authority will not proceed with the $50,000,000 Community Facilities loans.

Doc. No. 34GL-18-1830.

(8) Commitments and Contingencies, Continued

Government of Guam General Fund

In March 2011, the Authority received a $12,250,000 invoice from the Government of Guam's Department of Administration (DOA) representing an annual assessment of $875,000 for each of the fiscal years 1998 to 2011 pursuant to 5 GCA Chapter 22 Section 22421, *Transfer of Autonomous Agency Revenues To Autonomous Agency Collections Fund*. In May 2011, the Authority requested DOA further review the assessment as the Authority believes that it does not owe the entire $12,250,000 based on previous transfers in 1994 and 1997 of $500,000 and $3,500,000 to the General Fund and to the Government of Guam Autonomous Agency Infrastructure Collection Fund (AAICF), respectively. The Authority also asserts that it funds certain government services provided by the Guam Customs and Quarantine Agency, the Guam Environmental Protection Agency, the Guam Police Department and the Guam Fire Department through ongoing operations at the Port; contributes to GEDA and Port's Base Realignment and Closure Commission; and, will fund the Tri-Star Pipeline and water line projects in the future. Further, the Authority understands that it is only required to transfer amounts to the AAICF when there is an operating surplus. No liability is recorded for this Government of Guam billing as of September 30, 2017 and 2016.

Lawsuit and Claims

The Authority is engaged in litigation with Guam YTK Corporation (YTK), a former tenant, involving a lease agreement dated December 14, 2001. In 2016, the case was submitted to arbitration as required by the terms of the lease agreement and in April 2016, the Arbitrators issued a decision awarding YTK $14 million. The Authority filed an appeal in the Superior Court of Guam to deny the award to YTK. In December 2016, the Superior Court of Guam denied the Authority's motion to vacate the Arbitration Award and granted YTK's Motion to Confirm the Award. In June 2017, the Authority filed a Notice of Appeal in the Superior Court of Guam. In January 2018, the Authority filed a Motion to Dismiss in the Supreme Court of Guam.

The Authority is also a defendant in other various lawsuits and proceedings arising in the normal course of business.

While the outcome of these lawsuits and proceedings cannot be predicted with certainty and could adversely affect the Authority's financial statements, it is the opinion of management, after consulting with its legal counsel, that the ultimate disposition of such suits and proceedings will not have a material adverse effect on the Authority's financial statements at this time, and therefore no provision has been recorded for these litigation and claims in the 2017 and 2016 financial statements.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. The remaining estimated accrued merit bonus as of September 30, 2017 and 2016 is $54,000.

Purchase Commitments

As of September 30, 2017, the Authority has outstanding purchase orders for various equipment purchases totaling $591,217.

Doc. No. 34GL-18-1830.

(9) Crane Surcharge

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

The rate order also required the Authority to deposit 9.5% of surcharge revenues into a crane replacement sinking fund, which is restricted for the future acquisition of cranes, loan payments on crane debt service or extraordinary corrective maintenance events. The balance in the reserve account at September 30, 2017 and 2016 is $4,883,632 and $2,500,077, respectively.

The Authority recorded $6,092,371 and $6,284,894 of crane surcharge revenue for the years ended September 30, 2017 and 2016, respectively.

(10) Restricted Net Position

At September 30, 2017 and 2016, net position is restricted for the following purposes:

	2017	2016
Future crane acquisition, crane debt service or extraordinary crane maintenance	$ 4,883,632	$ 2,500,077
Debt service	323,160	322,756
Collateral for the SLE loan	3,175,465	2,708,032
	$ 8,382,257	$ 5,530,865

Doc. No. 34GL-18-1830.

OTHER FINANCIAL INFORMATION

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

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

Defined Benefit Plan

	2017	2016	2015	2014
Total Government of Guam net pension liability	$ 1,368,645,126	$ 1,436,814,230	$ 1,246,306,754	$ 1,303,304,636
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	$ 43,796,523	$ 44,375,587	$ 37,618,961	$ 44,444,980
PAG's proportion of the net pension liability	3.20%	3.09%	3.02%	3.41%
PAG's covered-employee payroll**	$ 16,202,268	$ 15,793,402	$ 15,241,377	$ 15,698,669
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	270.31%	280.98%	246.82%	283.11%
Plan fiduciary net position as a percentage of the total pension liability	54.62%	52.32%	56.60%	53.94%

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

See Accompanying Independent Auditors' Report.

Doc. No. 34GL-18-1830.

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

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

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

	2017	2016
Total Government of Guam net pension liability***	$ 229,486,687	$ 235,799,709
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	$ 9,759,549	$ 10,037,574
PAG's proportion of the net pension liability	4.25%	4.26%
PAG's covered-employee payroll**	$ 21,532,740	$ 21,767,959
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	45.32%	46.11%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.
*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

Doc. No. 34GL-18-1830.

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

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

Ad Hoc COLA Plan for DCRS Retirees

	2017	2016
Total Government of Guam net pension liability***	$ 61,688,067	$ 52,115,736
Port Authority of Guam's (PAG's) proportionate share of the net pension liability	$ 3,211,338	$ 3,044,143
PAG's proportion of the net pension liability	5.21%	5.84%
PAG's covered-employee payroll**	$ 19,004,676	$ 20,788,290
PAG's proportionate share of the net pension liability as percentage of its covered employee payroll	16.90%	14.64%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.
*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

Doc. No. 34GL-18-1830.

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

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

	2017	2016	2015	2014
Statutorily required contribution	$ 4,017,046	$ 4,172,659	$ 4,062,777	$ 4,214,569
Contributions in relation to the statutorily required contribution	3,981,412	4,154,190	4,047,929	4,158,400
Contribution (excess) deficiency	$ 35,634	$ 18,469	$ 14,848	$ 56,169
PAG's covered-employee payroll **	$ 16,202,268	$ 15,793,402	$ 15,241,377	$ 15,698,669
Contribution as a percentage of covered-employee payroll	24.57%	26.30%	26.56%	26.49%

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

See Accompanying Independent Auditors' Report.

Doc. No. 34GL-18-1830.

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

Schedule of Funding Progress and Actuarial Accrued Liability - Post Employment Benefits Other than Pension (Unaudited)

The Schedule of Funding Progress presents GASB 45 results of OPEB valuations as of fiscal year ends September 30, 2017, 2016, 2011, and 2007 for the Port Authority of Guam's share of GovGuam Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	$ -	$ 13,651,000	$ 13,651,000	0.0%	$ 10,981,000	124.3%
October 1, 2011	$ -	$ 37,028,000	$ 37,028,000	0.0%	$ 13,878,000	266.8%
October 1, 2015	$ -	$ 69,129,551	$ 69,129,551	0.0%	$ 17,004,433	406.5%
October 1, 2016*	$ -	$ 73,030,372	$ 73,030,372	0.0%	$ 17,684,610	413.0%

* Projected

See Accompanying Independent Auditors' Report.

Doc. No. 34GL-18-1830.

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

Details of Operating Expenses
Years Ended September 30, 2017 and 2016

	2017	2016 As restated (Note 1)
Management and Administration:		
Management:		
Salaries and wages - regular	$ 500,846	$ 476,565
Pension cost	181,377	178,823
Annual leave	56,641	45,177
Benefits - Government contribution	26,762	23,141
Fringe benefits	7,710	9,298
Furnishings and equipment	4,239	-
Office supplies	1,213	1,366
Salaries and wages - other	-	4,007
Miscellaneous	26,097	20,351
Total management	804,885	758,728
Administration:		
Salaries and wages - regular	5,625,356	5,269,253
Pension cost	2,013,289	1,885,031
Annual leave	558,498	432,026
Salaries and wages - overtime	376,358	375,108
Benefits - Government contribution	356,739	324,397
Fringe benefits	307,612	306,260
Repairs and maintenance	212,665	158,149
Furnishings and equipment	105,476	81,436
Salaries and wages - other	80,856	109,069
Operational supplies	61,109	41,489
Office supplies	32,259	31,032
Miscellaneous	286,765	267,119
Total administration	10,016,982	9,280,369
Total management and administration	$ 10,821,867	$ 10,039,097

See Accompanying Independent Auditors' Report.

Doc. No. 34GL-18-1830.

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

Details of Operating Expenses, Continued
Years Ended September 30, 2017 and 2016

	2017	2016 As restated (Note 1)
Equipment Maintenance:		
Salaries and wages - regular	$ 2,632,824	$ 2,312,741
Pension cost	987,194	870,500
Repairs and maintenance	490,325	754,675
Operational supplies	464,580	458,744
Salaries and wages - overtime	247,769	300,850
Annual leave	246,992	192,090
Fringe benefits	185,055	179,290
Salaries and wages - other	175,596	195,818
Benefits - Government contribution	170,025	142,946
Contractual	21,535	22,525
Furnishings and equipment	16,556	14,977
Office supplies	1,993	1,903
Miscellaneous	-	24
Total equipment maintenance	$ 5,640,444	$ 5,447,083
Transportation Services:		
Salaries and wages - regular	$ 2,822,454	$ 2,565,230
Pension cost	1,136,812	1,052,680
Salaries and wages - overtime	528,983	416,472
Annual leave	261,933	203,913
Gas, oil and diesel	227,716	200,244
Fringe benefits	206,386	192,338
Benefits - Government contribution	188,282	166,388
Salaries and wages - other	171,170	183,085
Furnishings and equipment	3,371	1,646
Operational supplies	1,427	1,435
Office supplies	1,052	1,023
Total transportation services	$ 5,549,586	$ 4,984,454

See Accompanying Independent Auditors' Report.

Doc. No. 34GL-18-1830.

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

Details of Operating Expenses, Continued
Years Ended September 30, 2017 and 2016

	2017	2016 As restated (Note 1)
Stevedoring Services:		
Salaries and wages - regular	$ 2,245,817	$ 2,184,178
Pension cost	833,001	816,736
Salaries and wages - overtime	239,889	253,913
Annual leave	202,242	168,284
Fringe benefits	155,365	186,099
Benefits - Government contribution	155,265	145,939
Salaries and wages - other	150,443	157,087
Operational supplies	8,967	20,385
Office supplies	1,800	1,029
Total stevedoring services	$ 3,992,789	$ 3,933,650
Facility Maintenance:		
Salaries and wages - regular	$ 1,037,659	$ 859,901
Pension cost	382,620	336,964
Operational supplies	226,811	134,442
Annual leave	92,201	66,973
Fringe benefits	83,419	64,358
Benefits - Government contribution	70,582	58,310
Salaries and wages - overtime	59,412	114,532
Salaries and wages - other	15,389	14,124
Furnishings and equipment	13,708	5,889
Office supplies	645	767
Repairs and maintenance	-	8,646
Miscellaneous	4,501	62
Total facility maintenance	$ 1,986,947	$ 1,664,968

See Accompanying Independent Auditors' Report.

Doc. No. 34GL-18-1830.

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

Details of Operating Expenses, Continued
Years Ended September 30, 2017 and 2016

	2017	2016 As restated (Note 1)
Terminal Services:		
Salaries and wages - regular	$ 1,562,184	$ 1,500,247
Pension cost	593,414	562,775
Salaries and wages - overtime	232,564	206,975
Annual leave	138,128	111,176
Fringe benefits	114,067	134,810
Benefits - Government contribution	106,707	99,285
Salaries and wages - other	53,029	49,066
Office supplies	6,315	6,127
Operational supplies	1,786	5,362
Furnishings and equipment	524	-
Total terminal services	$ 2,808,718	$ 2,675,823
General Expenses:		
Professional services	$ 1,182,628	$ 1,978,138
Legal counsel	991,926	857,364
Managers' fee	834,248	1,003,386
Maintenance	187,257	365,427
Waste removal	113,373	112,883
Audit	55,000	45,000
Port incentive award	26,959	16,196
Inventory adjustment	22,040	7,226
Workmen's compensation injury allowance	14,752	105,477
Agency fee	7,610	52,163
Board of Directors expense	6,261	4,229
Claims and damages	767	17,022
Miscellaneous	290,789	223,893
Total general expenses	$ 3,733,610	$ 4,788,404

See Accompanying Independent Auditors' Report.

Doc. No. 34GL-18-1830.

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

Summary of Salaries and Wages
Years Ended September 30, 2017 and 2016

	2017	2016
Salaries and wages - regular	$ 16,427,139	$ 15,168,115
Salaries and wages - overtime	1,684,974	1,667,850
Benefits - Government contribution	1,074,361	960,407
Fringe benefits	1,059,616	1,072,452
Salaries and wages - other	646,483	712,255
	$ 20,892,573	$ 19,581,079

See Accompanying Independent Auditors' Report.

Doc. No. 34GL-18-1830.

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

Employees by Department
Years Ended September 30, 2017 and 2016

	2017	2016
Department:		
Management and administration	110	108
Equipment maintenance	53	47
Transportation services	57	66
Stevedoring services	62	57
Facility maintenance	30	27
Terminal services	35	39
	347	344

See Accompanying Independent Auditors' Report.

Doc. No. 34GL-18-1830.

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

INDEPENDENT AUDITORS' REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2017

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Port Authority of Guam:

We have audited, in accordance with the 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, the financial statements of Port Authority of Guam (the Authority), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

April 19, 2018

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors
Port Authority of Guam:

Report on Compliance for Each Major Federal Program

We have audited Port Authority of Guam's (the Authority's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2017. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Deloitte.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Port Authority of Guam as of and for the year ended September 30, 2017, and have issued our report thereon dated April 19, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP

April 19, 2018

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

CFDA #	Other Identification Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Expenditures
		U.S. Department of Agriculture	
		Direct Program:	
10.Unknown	Not applicable	Rural Development Loan Guarantee: FY11	$ 2,473,893
10.Unknown	Not applicable	Rural Development Loan Guarantee: FY13	9,925,985
10.Unknown	Not applicable	Rural Development Loan: FY15	1,700,752
		U.S. Department of Agriculture Total	14,100,630
		U.S. Department of Defense	
	P0747301	Pass through Government of Guam Office of the Governor:	
12.607		Community Economic Adjustment Assistance for Realignment or Closure of a Military Installation	716,018 *
		U.S. Department of Defense Total	716,018
		U.S. Department of the Interior	
		Direct Program:	
15.622	Not applicable	Sportfishing and Boating Safety Act	44,296
		U.S. Department of the Interior Total	44,296
		U.S. Department of Transportation	
		Direct Program:	
		Highway Safety Cluster:	
20.600	Not applicable	State and Community Highway Safety	24,000
		Subtotal: Highway Safety Cluster	24,000
		U.S. Department of Transportation Total	24,000
		U.S. Department of Homeland Security	
		Direct Programs:	
97.026	Not applicable	Emergency Management Institute Training Assistance	15,650
97.056	Not applicable	Port Security Grant Program	346,351
		U.S. Department of Homeland Security Total	362,001
		Total Federal Awards	$ 15,246,945

*$60,615 of expenditure amount pertains to prior year

See accompanying notes to Schedule of Expenditures of Federal Awards.

Reconciliation to the basic financial statements:		
Beginning Balance in FY17 - USDA Loan FY11	$ 2,473,893	
Beginning Balance in FY17 - USDA Loan FY13	9,925,985	
Beginning Balance in FY17 - USDA Loan FY15	1,700,752	
US Government Contributions - Operating	835,873	
US Government Contributions - Capital	310,442	
		$ 15,246,945

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

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

(1) Scope of Audit

The Port Authority of Guam (the Authority) is a component unit of the Government of Guam created by Public Law 13-87 as an autonomous agency of the Government of Guam. Only the transactions of the Authority are included within the scope of the Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Authority under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

(3) Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. All expenses, capital outlays and loan proceeds are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The Authority does not elect to use the de-minimis indirect cost rate allowed under the Uniform Guidance.

(4) Loans or Loan Guarantee Programs

The Authority has two outstanding loans guaranteed by the U.S. Department of Agriculture (USDA), and one direct loan from USDA. Balances and transactions relating to these loans and loan guarantees are included in the Authority's financial statements. The balance of loans outstanding at September 30, 2017 consist of:

CFDA Number	Loan or Loan Guarantee Name	Outstanding Balance At September 30, 2017
10.Unknown	Rural Development Loan Guarantee: FY11	$ 2,261,354
10.Unknown	Rural Development Loan Guarantee: FY13	9,288,632
10.Unknown	Rural Development Loan: FY15	1,434,001
	Total outstanding loans and loan guarantees	$12,983,987

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

1. Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

   Internal control over financial reporting:

2. Material weakness(es) identified? No
3. Significant deficiency(ies) identified? None reported

4. Noncompliance material to financial statements noted? Yes

Federal Awards

   Internal control over major federal programs:

5. Material weakness(es) identified? No
6. Significant deficiency(ies) identified? None reported

7. Type of auditors' report issued on compliance for major federal programs: Unmodified

8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

9. Identification of major federal programs:

CFDA Numbers	Name of Federal Program
10.Unknown	Rural Development Loan and Loan Guarantee
12.607	Community Economic Adjustment Assistance for Realignment or Closure of a Military Installation

10. Dollar threshold used to distinguish between Type A and Type B Programs: $750,000

11. Auditee qualified as low-risk auditee? No

Section II – Financial Statement Findings

Reference Number	Finding
2017-001	Local Procurement

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Doc. No. 34GL-18-1830.

Finding No.: 2017-001
Area: Local Procurement

Criteria:

Pursuant to the Guam Procurement Law §3109(n)(1), contracts are to be awarded to the lowest responsible and responsive bidder whose bid meets the requirements and criteria set forth in the Invitation for Bids.

Condition:

Bid No. GSA/PAG-015-15 with total locally-funded expenditures of $1,987,796 for the acquisition of 4 toplifters was awarded to the lowest bidder whose bid was not responsive. Another bidder appeared to be responsive, but the bid was higher. The procurement file did not contain a written rationale for selecting one bidder over the other.

Cause:

The cause is incomplete documentation to demonstrate full compliance with applicable procurement requirements. Also, compliance with applicable rules and procedures does not appear to have been fully followed.

Effect:

The effect of the above condition is local noncompliance with applicable Guam procurement rules.

Recommendation:

We recommend that all considerations related to the bid evaluation and selection be documented in the procurement file by the responsible personnel.

View of the Auditee and Planned Corrective Actions:

See the Corrective Action Plan.

PORT OF GUAM
ATURIDAT I PUETTON GUAHAN
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Website: www.portguam.com

Eddie Baza Calvo
Governor of Guam
Ray Tenorio
Lieutenant Governor

Corrective Action Plan
Year Ended September 30, 2017

Finding 2017-001 – Local Procurement

Corrective Action Plan:

That the Port Authority of Guam in accordance to §5249 through §5252 of the Guam Code Annotated under the Compiler of Laws will maintain its procurement records when filing bids that they may be correct and complete before any award of contract is initiated.

A ratification has been filed to affirm award for bid GSA/PAG-015-15

Name of Contact Person:

Mark Cabrera- Buyer II, Port Authority of Guam, (671) 477-5931 ext. 454
Claudia S. Acfalle, Chief Procurement Officer, GSA (671) 475-1720

Proposed Completion Date:

Immediately

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

Schedule of Prior Audit Findings
Year Ended September 30, 2017

Findings relating to the financial statements, which are required to be reported in accordance with GAGAS:

No matters were reported.

Findings and questioned costs – Major Federal Award Programs Audit

Finding Number	Findings	Status
2016-001	Special Tests and Provisions	Corrective action was taken

Doc. No. 34GL-18-1830.