

PORT AUTHORITY OF GUAM
(A Public Corporation)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2000 AND 1999

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, Guam 96911

Tel: (671) 646-3884
Fax: (671) 649-4932
www.dttguam.com



INDEPENDENT AUDITORS' REPORT

Board of Directors
Port Authority of Guam:

We have audited the accompanying balance sheets of the Port Authority of Guam ("the Port"), a component unit of the Government of Guam, as of September 30, 2000 and 1999, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraphs, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were unable to obtain information to support the carrying value of inventories at September 30, 2000 and 1999. As a result, we are unable to form an opinion on replacement parts inventories, carried at \$318,024 and \$401,771 at September 30, 2000 and 1999, respectively.

We were also unable to obtain information to satisfy ourselves as to the collectibility of certain long-term accounts receivable, carried at \$2,000,000 at September 30, 2000 and 1999. As a result, we are unable to form an opinion on the proper valuation of such accounts receivable.

In our opinion, except for the effects of such adjustments, if any, as might be required had we been able to obtain information to satisfy ourselves with respect to replacement parts inventory valuation and the collectibility of \$2,000,000 of long-term accounts receivable, the accompanying financial statements present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2001, on our consideration of the Port Authority of Guam's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in dark ink on a light-colored background.

November 5, 2001

PORT AUTHORITY OF GUAM
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Balance Sheets
September 30, 2000 and 1999

<u>ASSETS</u>	<u>2000</u>	<u>1999</u>
Current assets:		
Cash	\$ 3,009,754	\$ 6,085,522
Accounts receivable, net of allowance for doubtful accounts of \$1,668,121 in 2000 and \$2,003,009 in 1999	<u>3,053,104</u>	<u>2,680,659</u>
Total current assets	6,062,858	8,766,181
Replacement parts inventories, net of allowance for obsolescence of \$170,399 in 2000 and \$170,449 in 1999	318,025	401,771
Property, plant and equipment, net (note 2)	51,834,174	55,910,944
Long-term accounts receivable, net of an allowance for doubtful accounts of \$973,255 in 2000 and 1999 (note 8)	<u>2,542,306</u>	<u>2,000,000</u>
	\$ <u>60,757,363</u>	\$ <u>67,078,896</u>
 <u>LIABILITIES AND FUND EQUITY</u> 		
Current liabilities:		
Obligations under capital leases, current portion (note 4)	\$ 189,035	\$ 347,812
Accounts payable, trade	1,324,297	885,162
Security deposits and other payables	540,358	461,284
Accrued payroll and withholdings	357,440	719,102
Accrued annual leave	<u>776,517</u>	<u>812,656</u>
Total current liabilities	3,187,647	3,226,016
Accrued annual leave, less current portion	812,657	812,657
Obligations under capital leases, net of current portion (note 4)	141,000	102,030
Unfunded pension costs (note 3)	<u>11,500,262</u>	<u>11,754,306</u>
Total liabilities	<u>15,641,566</u>	<u>15,895,009</u>
Fund equity:		
Contributions:		
Rehabilitation act funds	13,884,126	13,884,126
Government of Guam General Fund	13,897,359	13,880,807
U.S. Government	8,101,552	8,101,552
Port Authority - incentive awards	7,000	7,000
Retained earnings	<u>9,225,760</u>	<u>15,310,402</u>
Total contributions and retained earnings	<u>45,115,797</u>	<u>51,183,887</u>
Commitments and contingencies (notes 4, 5, and 7)	\$ <u>60,757,363</u>	\$ <u>67,078,896</u>

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
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Statements of Operations and Retained Earnings
Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating revenues (note 6):		
Cargo throughput charges	\$ 14,971,463	\$ 16,673,495
Wharfage charges	3,343,016	3,710,305
Equipment and space rental	3,095,004	3,127,631
Special services	<u>351,485</u>	<u>376,996</u>
Total operating revenues	<u>21,760,968</u>	<u>23,888,427</u>
Expenses:		
Management and administration	6,578,141	6,044,119
Equipment maintenance	3,868,316	4,269,993
Depreciation	3,552,895	3,194,449
Transportation services	3,082,189	3,258,588
Stevedoring services	2,459,476	2,468,742
General expenses	2,238,572	1,882,098
Facility maintenance	1,955,428	2,138,623
Terminal services	1,768,778	1,793,666
Insurance	1,489,453	1,449,266
Utilities	<u>1,145,977</u>	<u>1,095,280</u>
Total expenses	<u>28,139,225</u>	<u>27,594,824</u>
Loss from operations	<u>(6,378,257)</u>	<u>(3,706,397)</u>
Other income and (expense):		
Interest income	193,650	296,145
Interest expense	(48,171)	(62,293)
Other non-operating income	733,813	969,318
Other expense (note 9)	<u>(585,677)</u>	<u>(1,223,536)</u>
Total other income and (expense), net	293,615	(20,366)
Net loss	(6,084,642)	(3,726,763)
Retained earnings at beginning of year	<u>15,310,402</u>	<u>19,037,165</u>
Retained earnings at end of year	\$ <u>9,225,760</u>	\$ <u>15,310,402</u>

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Loss from operations	\$ (6,378,257)	\$ (3,706,397)
Adjustments to reconcile loss from operations to net cash (used in) provided by operating activities:		
Depreciation	3,552,895	3,194,449
Other income	733,813	969,318
Inventory loss or obsolescence	76,294	170,449
(Increase) decrease in assets:		
Receivables	(914,751)	6,040,996
Replacement parts inventories	7,452	201,266
Increase (decrease) in liabilities:		
Accounts payable, trade	439,135	(2,606,136)
Accrued payroll and withholdings	(361,662)	20,659
Security deposits and other payables	79,074	(131,638)
Accrued annual leave	(36,139)	183,978
Unfunded pension costs	<u>(254,045)</u>	<u>(1,231,070)</u>
Net cash (used in) provided by operating activities	<u>(3,056,191)</u>	<u>3,105,874</u>
Cash flows from investing activities:		
Interest received	<u>193,650</u>	<u>296,145</u>
Net cash provided by investing activities	<u>193,650</u>	<u>296,145</u>
Cash flows from noncapital financing activities:		
Transfers Out	<u>-</u>	<u>(1,223,536)</u>
Net cash used in noncapital financing activities	<u>-</u>	<u>(1,223,536)</u>
Cash flows from capital and related financing activities:		
Purchase of property, plant and equipment	(61,800)	(3,165,654)
Principal payments of obligations under capital lease	(119,808)	(240,449)
Contributed capital received	16,552	-
Interest paid	<u>(48,171)</u>	<u>(62,293)</u>
Net cash used in capital and related financing activities	<u>(213,227)</u>	<u>(3,468,396)</u>
Net decrease in cash	(3,075,768)	(1,289,913)
Cash at beginning of year	<u>6,085,522</u>	<u>7,375,435</u>
Cash at end of year	<u>\$ 3,009,754</u>	<u>\$ 6,085,522</u>

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2000 and 1999

(1) Organization and Summary of Significant Accounting Policies

Organization

The Port Authority of Guam (the "Port") 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 Port at book value effective April 20, 1976. The Port is governed by a five member Board of Directors appointed by the Governor with consent provided by the Legislature. The Port is a component unit of the Government of Guam.

The Port'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 Port Authority in 1979. Eleven acres of adjacent property was assigned to the Port from the U.S. Navy at an annual rent of \$1 to be used for future container yard expansion.

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

Summary of Significant Accounting Policies

Basis of Accounting

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

Cash

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

Credit risk associated with deposits is categorized in to three levels generally described as follows:

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

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Notes to Financial Statements
September 30, 2000 and 1999

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

Cash, Continued

Category 3 - Uncollateralized.

The Port has approximately \$272,960 and \$200,000 of deposits insured through the Federal Deposit Insurance Corporation and approximately \$2,736,794 and \$5,885,522 of uninsured and uncollateralized deposits as of September 30, 2000 and 1999, respectively.

Revenue Recognition

The Port's revenues are derived primarily from providing various services to major shipping line customers under an approved tariff rate schedule. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed.

Property, Plant and Equipment

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

Replacement Parts Inventories

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

Annual Leave

Annual leave is accrued in the period earned. Unused leave is payable to employees upon termination of employment.

Risk Management

The Port is exposed to various risks of loss; theft of, damage to, and destruction of assets; operation liability; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is provided for claims arising from most of these matters.

Estimates

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

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Notes to Financial Statements
September 30, 2000 and 1999

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

Reclassifications

Certain account balances in the 1999 financial statements have been reclassified to correspond with the 2000 financial statement presentation.

(2) Property, Plant and Equipment

A schedule of the Port's investment in property, plant and equipment as of September 30, 2000 and 1999 is as follows:

	<u>Estimated Useful Lives</u>	<u>2000</u>	<u>1999</u>
Buildings and structures	40 years	\$ 62,228,107	\$ 62,228,167
Equipment	5-15 years	<u>21,552,555</u>	<u>21,562,023</u>
		83,780,662	83,790,190
Less: accumulated depreciation		<u>35,608,822</u>	<u>32,027,923</u>
		48,171,840	51,762,267
Construction-in-progress		99,334	585,677
Land		<u>3,563,000</u>	<u>3,563,000</u>
		<u>\$ 51,834,174</u>	<u>\$ 55,910,944</u>

(3) Employees Retirement Plan

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

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

As a result of the most recent actuarial valuation performed as of September 30, 1999, it has been determined that for the year ended September 30, 2000, a minimum combined employer and employee contribution rate of 33.41% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the year ended September 30, 2000. The effect of the Port's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 23.91% to an effective rate of 16.53% for the year ended September 30, 2000. In recognition of the above, at September 30, 2000, an accrual reduction of 2.07% of covered payroll is necessary to adjust the unfunded liability based on the difference between the effective rate of 16.53% and the employer's statutory rate of 18.6%. The effective employer accrual rate for the year ended September 30, 1999 was 9.56%.

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Notes to Financial Statements
September 30, 2000 and 1999

(3) Employees Retirement Plan, Continued

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 5.5% per annum. The most recent actuarial valuation performed as of September 30, 1999, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Port as a separate sponsor, the accrued unfunded liability at September 30, 2000 and 1999 may be materially different than that recorded in the accompanying financial statements.

The Guam Legislature enacted legislation during the year ended September 30, 2000 which offered retirement incentives for employees to retire or voluntarily separate from service with the Government of Guam and also required the Retirement Fund to incur the costs of providing certain supplemental retiree benefits. This legislation resulted in a significant increase in the Retirement Fund's unfunded accrued liability and is the primary reason for the increase in the employer's contribution rate for the year ended September 30, 2000.

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

Employer contributions into the DCRS are based on a statutory amount of 18.6% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.6% is contributed towards the unfunded liability of the defined benefit plan.

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

The cost to the Port for retirement contributions for the years ended September 30, 2000 and 1999 amounted to \$3,480,599 and \$2,268,303, respectively.

(4) Lease Commitment

The Port leases a Hitachi crane and other equipment under capital leases. Future minimum lease payments due after September 30, 2000 are as follows:

2001	\$ 213,120
2002	47,000
2003	47,000
2004	<u>47,000</u>
Total minimum payments	354,120
Less amount representing interest	<u>(24,085)</u>
Total obligation under capital lease	330,035
Current portion of obligation under capital lease	<u>(189,035)</u>
Obligation under capital lease	\$ <u>141,000</u>

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September 30, 2000 and 1999

(5) Contingencies

Government of Guam General Fund

The Guam Legislature has enacted legislation which requires certain autonomous proprietary funds, including the Port, to transfer certain amounts to the Government of Guam general fund on an annual basis. During the year ended September 30, 1994, the Port transferred \$500,000 to the General Fund pursuant to such legislation, thereby reducing its contributions received from the Government of Guam general fund. In addition, during the year ended September 30, 1997, the Port transferred \$3,500,000 to the Government of Guam Autonomous Agency Infrastructure Collection Fund. The Governor of Guam and the board of directors, for the years ended September 30, 1987 through 1993, 1995, 1996 and 1998 through 2000, have not determined the Port's allocated portions of these transfers. Accordingly, no liability has been recorded for this contingency as of September 30, 2000.

Lawsuits/Claims

As of September 30, 2000, the Port has been named as defendant in lawsuits, including a wrongful death suit in which two other Government of Guam agencies have been sued for joint and several liability, and claims aggregating \$790,313 in potential awards. Subsequent to September 30, 2000, the Port settled the wrongful death suit and one claim for \$247,760. No provision, except for the subsequent settlement amount, has been recorded in the accompanying financial statements for these contingencies. Apart from the lawsuit and the claim subsequently settled, the Port intends to vigorously defend itself against these actions.

Medicare

The Government of Guam and its component units, including the Port, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998. Prior to that date, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security system. If the Government is found to be liable for Medicare payments on salaries and wages prior to October 1998, an indeterminate liability could result. It has been the position of the Port and all other component units of the Government of Guam that payment of this health insurance component is optional prior to October 1998. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Federal Program Compliance

In 1998, the Port expended funds under a United States federal assistance program. This program is subject to financial and compliance audits, due no later than thirteen months after the fiscal year end, to ascertain whether federal laws and guidelines have been followed. Currently, the required compliance audit is in progress, but has not been completed for this program. The effect, if any, of this noncompliance issue on the accompanying financial statements has not been determined.

(6) Major Customers

The Port has six major shipping line customers which account for 95% and 93% of total operating revenues, for the years ended September 30, 2000 and 1999, respectively. The Port has a high concentration of credit risk due to the limited number of entities comprising its customer base.

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Notes to Financial Statements
September 30, 2000 and 1999

(7) Rental Operations

The Port, in cooperation with the Guam Economic Development Authority (GEDA), leases space to tenants under noncancelable operating leases, with options to renew, providing for future minimum rentals. The future minimum rental payments due from tenants under noncancelable operating leases in effect at September 30, 2000, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Port Share</u>	<u>GEDA Share</u>	<u>Total</u>
2001	\$ 317,970	\$ 406,255	\$ 724,225
2002	247,119	315,732	562,851
2003	247,085	315,689	562,774
2004	247,042	315,633	562,675
2005	247,042	315,633	562,675
Thereafter	<u>445,538</u>	<u>569,243</u>	<u>1,014,781</u>
	\$ <u>1,751,796</u>	\$ <u>2,238,185</u>	\$ <u>3,989,981</u>

The Port also leases equipment and space to tenants on a month to month basis. Total equipment and lease space revenue from tenants for monthly rentals are \$3,095,004 and \$3,127,631, respectively, for the years ended September 30, 2000 and 1999.

(8) Long-Term Receivable

On December 16 and 17, 1997, the island of Guam was devastated by Typhoon Paka. On December 18, 1997, the Guam Legislature passed Public Law 24-117, "Super Typhoon Paka Emergency Recovery Act", which authorized the Governor of Guam to expend funds from Government of Guam autonomous agencies for the purpose of providing and restoring damaged government services and infrastructure to the people of Guam. On May 15, 1998, the Port transferred \$2,000,000 to the Government of Guam. Public Law 24-117 provides that upon reimbursement from Federal and other sources, the Government of Guam is to reimburse the Port the entire amount transferred. Accordingly, a long-term receivable of \$2,000,000 due from the Government of Guam has been recorded as of September 30, 2000 and 1999.

In 1997, the Port entered into an agreement with GEDA to split the costs of the BRAC (Base Realignment and Closure Commission) GovGuam Steering Committee. This committee is responsible for economic development of certain former U.S. Navy facilities in and around Apra Harbor in Guam. Under the agreement, the Port pays the committee's expenses and then bills GEDA for its portion of the expenses. At September 30, 2000 and 1999, the Port has recorded receivables of \$1,515,561 and \$973,255, respectively, from GEDA for GEDA's share of the BRAC steering committee's expenses. The Port has recorded an allowance of \$973,255 at September 30, 2000 and 1999 as its best estimate of the receivable that may be uncollectible. However, this estimate may change and the effect of the change may materially impact the financial statements of future years.

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September 30, 2000 and 1999

(9) Other Expense

During the fiscal year ended September 30, 1999, in accordance with Public Law 24-59, the Port transferred funds totaling \$1,223,536 to the Government of Guam Retirement Fund for supplemental annuity benefits of Port employees who retired prior to October 1, 1995. Public Law 24-59 did not extend the transfer requirement past fiscal year 1999.

(10) Subsequent Events

On April 23, 2001, a former employee filed a government claim against the Port for \$400,000 for negligence concerning release of information about his termination and for termination without cause. The Port intends to vigorously defend itself against this action.

On October 13, 2001, an earthquake with a magnitude of 7.0 on the Richter scale struck Guam. Damage to the Port's property, plant and equipment, as a direct result of the earthquake, totaled approximately \$8 million, according to latest estimates. The Port's insurance coverage is expected to absorb the final loss amount, less a \$500,000 deductible. Port management intends to seek reimbursement from federal sources for the deductible.