PORT AUTHORITY OF GUAM
(A Public Corporation)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2004 AND 2003

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Port Authority of Guam:

We have audited the accompanying statement of net assets of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, as of September 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2004 and 2003, and the changes in its net assets its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2005, on our consideration of the Port Authority of Guam's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

March 15, 2005

PORT AUTHORITY OF GUAM
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Management's Discussion and Analysis
September 30, 2004 and 2003

As management of the Port Authority of Guam (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with the financial statements and footnotes. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Operating Highlights

The Authority operates the only commercial seaport in the territory and, as the primary seaport in Micronesia, serves as a transshipment point for the entire Western Pacific region. It operates the largest U.S. deepwater port in the region and owns 5 cargo handling piers along with two fuel piers, three marinas and a harbor of refuge. The Authority handles two basic types of cargo:

- containerized cargo (various types of products that can be placed inside an intermodal container)
- non-containerized general cargo and rolling stock (products such as rebar, blocks, construction materials, unitized cargos, autos, tractors, and other heavy equipment).

The Authority enjoyed its second year of considerable performance by handling over 2 million revenue tons of cargo, 2.1 million revenue tons in FY 04 and 2.2 million in FY 03. The breakdown in FY 04 revenue tons are 1.9 million in containerized cargo and 133 thousand for breakbulk cargo.

The number of containers handled for fiscal year 2004 amounted to 78,224. Of that total, 58.7 thousand were loaded import and export containers, 17.3 thousand were stuffed transshipments and 2.3 thousand were empty transshipment containers.

There were 1,557 vessels that docked at the piers of the Authority. Container ships went up by 4% from 105 to 109. Fishing vessels went down by 21% from 1,321 to 1,044 in 2004. The number for breakbulk/ro-ro and passenger vessels in FY 04 were 173 and 14, respectively.

Financial Highlights

- The Port Authority continued to demonstrate financial strength in 2004 with an increase in net assets of $1,882,504.
- Gross Operating revenue in fiscal year 2004 is down by 9% compared to FY 03. The Port has been averaging $27.5 million during these two fiscal years compared to the $23.1 million average from the past 4 years between FY 99 to FY02.
- Operating expenses showed a reduction of 12% in FY04. Reasons for the decline are: cutback in personnel and decrease in other non-essential expenses.
- The Authority's net assets (amount assets exceeded liabilities) at the close of the fiscal year amounted to $46.3 million.

<u>Overview of the Financial Statements</u>

This discussion and analysis is intended to serve as an introduction of Port Authority of Guam's basic financial statements. The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported on an accrual basis.

Fund Financial Statements

Net Assets: The following table reflects the overall financial condition of Authority as of the last two (2) fiscal years ended September 30, 2004 and 2003, respectively.

	2004	2003	% Change
Current Assets	$ 18,492,121	$ 16,177,009	14%
Capital Assets	42,552,557	44,128,691	-4%
Total Assets	$ 61,044,678	$ 60,305,700	1%
Current Liabilities	$ 11,377,905	$ 13,219,256	-14%
Long-term Debt	3,382,627	2,684,802	26%
Total Liabilities	$ 14,760,532	$ 15,904,058	-7%
Net Assets	$ 46,284,146	$ 44,401,642	4%

The Authority's total current assets increased from $16.2 million at the beginning of the fiscal year to $18.5 million at the end of the year. Elements that can be considered to have contributed to this change include:

- Cash and cash equivalents and investments increased by 40% in fiscal year 2004. Most of these amounts are earmarked for the repairs on damages caused by earthquake in 2001 and two typhoons in 2002, construction projects such as electrical upgrades for Substations 1-4, container yard drainage repair, fendering replacements and installations, repair/upgrade of water system and equipment to support Port operations.
- Accounts receivable – trade decreased from $3.8 million to $3.3 million. This results in a net change of approximately $425 thousand or an 11% decrease from FY03. This reduction was due to increase in collections of outstanding receivables.

Inventories had a slight increase with a balance of $193 thousand in the prior year as compared to $228 thousand at September 30, 2004.

Property, plant and equipment decreased from $43.9 million to $42.3 million because of equipment that was surveyed, fully depreciated assets and accumulated depreciation.

The Authority's accounts payable - trade lowered from $2 million at the beginning of the fiscal year to $1.5 million at the end of the year. Current liabilities include liabilities which are due and payable within the next fiscal year.

Accrued Supplemental/COLA annuities for the prior year obligation was fully paid in 2004 together with current Supplemental owed to the Port retirees.

Current and long term portion of the annual leave decreased because of the number of employees that resigned or retired from the agency.

The Authority's equity position increased from $44.4 million to $46.3 million. The increase is attributable to the strong performance of PAG's operational income for the past two fiscal years.

Statement of Revenues, Expenses and Changes in Net Assets

The following table illustrates the history of revenues, expenses and changes in net assets for the past two (2) years ended September 30, 2004 and 2003, respectively.

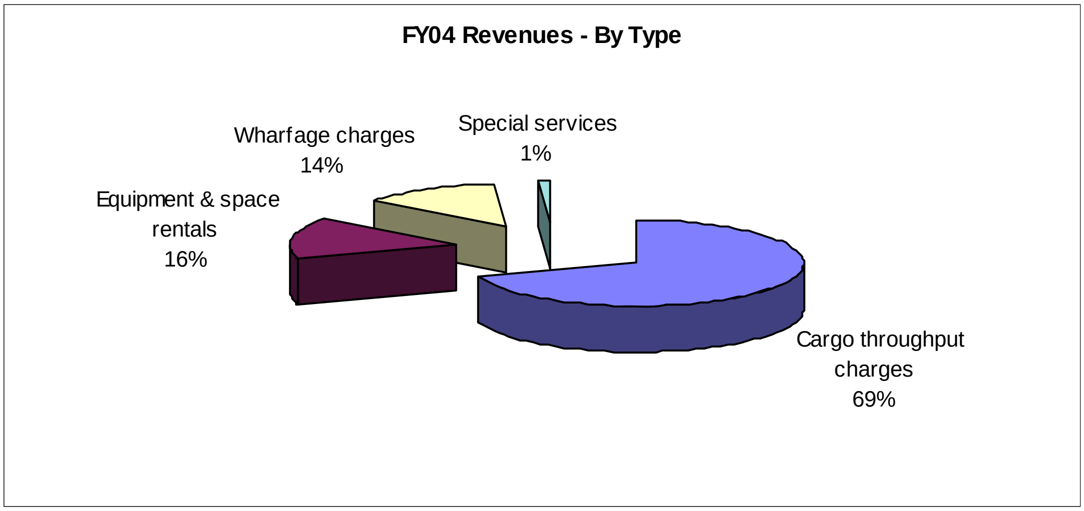
	2004	2003	% Change
Operating revenues	$ 26,169,993	$ 28,614,341	-9%
Operating expenses	21,554,455	24,554,654	-12%
Operating income before depreciation	4,615,538	4,059,687	14%
Depreciation expense	2,574,298	2,591,988	-1%
Operating income (loss)	2,041,240	1,467,699	39%
Non operating revenue (expense), net	-158,736	-1,053,066	-85%
Net income (loss) before capital contributions	1,882,504	414,633	354%
Capital grant contributions	0	360,000	-100%
Increase (decrease) in net assets	1,882,504	774,633	143%
Net assets-beginning of year	44,401,642	43,627,009	2%
Net assets-end of year	$ 46,284,146	$ 44,401,642	4%

Despite a 9% decrease in operating revenues, the Authority recorded an increase of 14% in operating income before depreciation. The 12% reduction in operating expense was the major factor for PAG management and personnel to achieve such success. Operating income in 2004 is up by 39% compared to 2003 and the total increase in net assets for FY04 is 143% higher than FY03.

Revenues

A summary of gross operating revenues for the years ended September 30, 2004 and 2003 follows:

Revenue Source	FY04	FY03	$ Variance	% Change
Cargo throughput charges	$ 18,274,627	$ 20,215,278	$ (1,940,651)	-10%
Equipment & space rentals	4,067,356	4,262,863	(195,507)	-5%
Wharfage charges	3,560,633	3,840,560	(279,927)	-7%
Special services	267,377	295,640	(28,263)	-10%
Total	$ 26,169,993	$ 28,614,341	$ (2,444,348)	-9%



Operating revenues of $26.2 million in 2004 is another indication of a thriving year for the Authority. Cargo throughput revenues decreased by 10% compared to prior year because in 2003 the shortage in chassis after Typhoon Pongsona resulted to an increase in grounded container revenue. The revenues for cargo throughput and equipment and space rental reflected an increase of 15% and 20%, respectively compared to the prior year average from FY 99 to FY02. FY 04 transshipments revenue of $1.8 million showed a 25% improvement compared to 2003.

Expenses

A summary of operating expenses, including depreciation, through September 30, 2004 and 2003 follows:

Operating Expenses	FY04	FY03	Total % Change
Management & Admin	$ 5,655,729	$ 6,266,958	-10%
Equipment Maintenance	4,232,530	4,461,139	-5%
Transportation Services	2,688,215	3,377,244	-20%
Insurance	2,579,290	2,484,191	4%
Depreciation	2,574,298	2,591,988	-1%
Stevedoring Services	2,005,790	2,264,470	-11%
Terminal Services	1,335,037	1,658,960	-20%
General Expense	1,184,414	1,674,657	-29%
Facility Maintenance	1,092,653	1,129,217	-3%
Utilities	780,797	830,679	-6%
Bad Debts	0	407,139	-100%
Total Operating Expense	$ 24,128,753	$ 27,146,642	-11%

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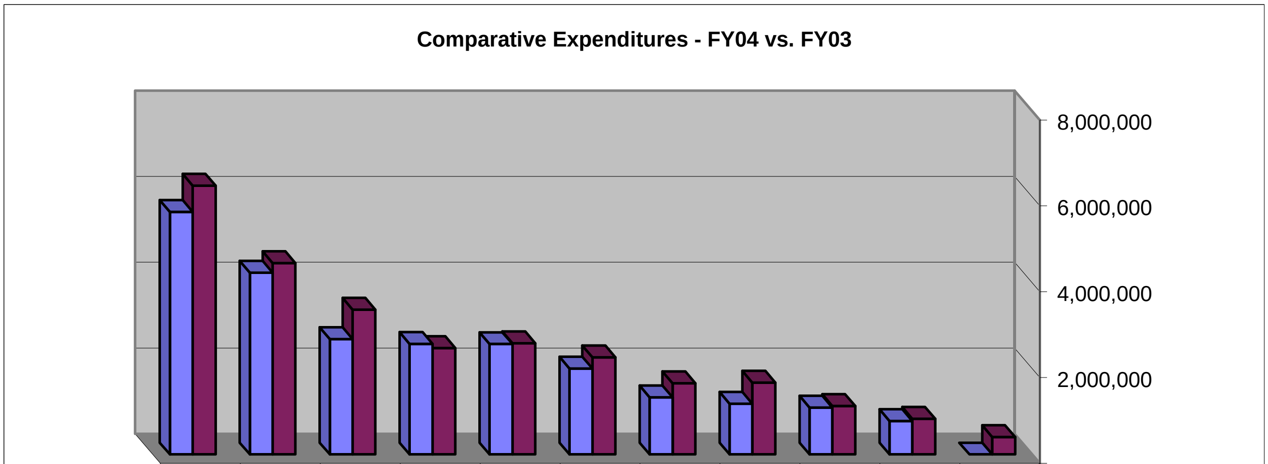
Management's Discussion and Analysis
September 30, 2004 and 2003



	Management & Admin	Equipment Maintenance	Transportation Services	Insurance	Depreciation	Stevedoring Services	Terminal Services	General Expense	Facility Maintenance	Utilities	Bad Debts
FY04	5,655,729	4,232,530	2,688,215	2,579,290	2,574,298	2,005,790	1,335,037	1,184,414	1,092,653	780797	0
FY03	6,266,958	4,461,139	3,377,244	2,484,191	2,591,988	2,264,470	1,658,960	1,674,657	1,129,217	830679	407139

Operating expenses, including depreciation, totaled $24.1 million in fiscal year 2004, a decrease of 11% over FY03. Expenses for management and administration has decreased by 10%, mainly due to the departure of 35 employees from FY 03 to FY 04. Most of the divisional outlay has decreased because of personnel attrition and other miscellaneous expenses.

Current Known Conditions Affecting Future Operation

- Public law 27-60,which authorizes the board of directors to enter into a public private partnership lease agreement for the terminal operations and maintenance of equipment at the Jose D. Leon Guerrero Commercial Port, is in the process of being developed. The Authority has chosen the Mercator Group from Seattle Washington to prepare the Request for Proposal documents for interested private companies.
- The Authority was granted several projects from Transportation Security Administration (TSA), FEMA, Office of Homeland Security and the Economic Development Administration. Descriptions of the projects are: wharf surveillance system, container yard fencing and lighting, portable concrete barriers, security screening system and the permanent CMU wall on container yard perimeter.
- Repairs of pier 5 will be ongoing in fiscal year 2005. The inability to use this pier has an impact on the Port operations.

Port Rates and Charges

The Authority publishes a uniform tariff, which contains standardized rates for various port usage fees. In addition to these published rates, the Authority leases its properties to various maritime and other businesses for which it collects rent.

Further Information

This financial overview is designed to provide readers with a general overview of the Authority's finances, and to show accountability. If you have any questions or would like further information about this financial report, you may contact Jojo Guevara, Financial Controller, Port Authority of Guam, 1026 Cabras Highway, Suite 201, Piti, GU 96915. Information of interest may also be obtained on the Authority's website at www.eccomm.com/~pag4.

PORT AUTHORITY OF GUAM
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Statements of Net Assets
September 30, 2004 and 2003

ASSETS	2004	2003
Current assets:		
Cash	$ 11,153,043	$ 10,786,885
Investment in time certificates of deposit	4,000,000	-
Accounts receivable, net of allowance for doubtful accounts of $1,015,879 in 2004 and $1,321,243 in 2003	3,339,078	3,763,948
Insurance and FEMA recoveries receivable	-	1,626,176
Total current assets	18,492,121	16,177,009
Replacement parts inventories, net of allowance for obsolesence of $155,976 in 2004 and $243,937 in 2003	228,467	193,674
Property, plant and equipment, net	42,324,090	43,935,017
	$ 61,044,678	$ 60,305,700

LIABILITIES AND NET ASSETS	2004	2003
Current liabilities:		
Accounts payable, trade	$ 1,466,792	$ 2,038,290
Security deposits and other payables	161,306	266,614
Accrued typhoon and earthquake damages	8,342,275	8,537,915
Accrued payroll and withholdings	611,532	430,007
Accrued supplemental/COLA annuities	-	1,035,866
Current portion of accrued annual leave	796,000	910,564
Total current liabilities	11,377,905	13,219,256
Accrued annual leave, less current portion	138,025	366,036
Unfunded pension costs	3,244,602	2,318,766
Total liabilities	14,760,532	15,904,058
Commitments and contingencies		
Net assets:		
Invested in capital assets	42,324,090	43,935,017
Unrestricted	3,960,056	466,625
Total net assets	46,284,146	44,401,642
	$ 61,044,678	$ 60,305,700

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2004 and 2003

	2004	2003
Operating revenues:		
Cargo throughput charges	$ 18,274,627	$ 20,215,278
Wharfage charges	3,560,633	3,840,560
Equipment and space rental	4,067,356	4,262,863
Special services	267,377	295,640
Total operating revenues	26,169,993	28,614,341
Operating expenses:		
Management and administration	5,655,729	6,266,958
Equipment maintenance	4,232,530	4,461,139
Transportation services	2,688,215	3,377,244
Insurance	2,579,290	2,484,191
Depreciation	2,574,298	2,591,988
Stevedoring services	2,005,790	2,264,470
Terminal services	1,335,037	1,658,960
General expenses	1,184,414	1,674,657
Facility maintenance	1,092,653	1,129,217
Utilities	780,797	830,679
Bad debts	-	407,139
Total operating expenses	24,128,753	27,146,642
Earnings from operations	2,041,240	1,467,699
Nonoperating revenues (expenses):		
Interest income	197,154	145,185
Other non-operating income	609,580	297,497
COLA/supplemental annuities	(909,732)	(569,154)
Other expense	(48,503)	(34,625)
Estimated typhoon loss	(7,235)	(880,969)
Earthquake loss	-	(11,000)
Total nonoperating expenses, net	(158,736)	(1,053,066)
Earnings before capital contributions	1,882,504	414,633
Capital contributions:		
Grants from the U.S. Government	-	360,000
Increase in net assets	1,882,504	774,633
Net assets at beginning of year	44,401,642	43,627,009
Net assets at end of year	$ 46,284,146	$ 44,401,642

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from customers	$ 27,204,443	$ 27,376,020
Cash payments to suppliers for goods and services	(9,280,512)	(9,645,387)
Cash payments to employees for services and benefits	(14,214,857)	(16,174,077)
Net cash provided by operating activities	3,709,074	1,556,556
Cash flows from investing activities:		
Interest received	197,154	145,185
Investment in time certificates of deposit	(4,000,000)	-
Net cash (used in) provided by investing activities	(3,802,846)	145,185
Cash flows from capital and related financing activities:		
Insurance and FEMA claims received	1,626,176	9,364,469
Earthquake and typhoon costs	(202,875)	(2,005,914)
Purchase of property, plant and equipment	(963,371)	(826,836)
Contributions from the U.S. Government	-	360,000
Net cash provided by capital and related financing activities	459,930	6,891,719
Net increase in cash	366,158	8,593,460
Cash at beginning of year	10,786,885	2,193,425
Cash at end of year	$ 11,153,043	$ 10,786,885
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	$ 2,041,240	$ 1,467,699
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	2,574,298	2,591,988
Payments for COLA/supplemental annuities	(1,945,598)	(674,460)
Bad debts	-	407,139
(Increase) decrease in assets:		
Receivables	1,034,450	(2,544,833)
Replacement parts inventories	(34,793)	(15,097)
Increase (decrease) in liabilities:		
Accounts payable, trade	(571,498)	76,399
Accrued payroll and withholdings	181,525	8,687
Security deposits and other payables	(153,811)	(92,349)
Accrued annual leave	(342,575)	(212,566)
Unfunded pension costs	925,836	543,949
Net cash provided by operating activities	$ 3,709,074	$ 1,556,556

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

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

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

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

Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

Summary of Significant Accounting Policies, Continued

Net Assets

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

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

The Authority does not have restricted net assets at September 30, 2004 and 2003.

Cash

For purposes of the statements of net assets and of cash flows, cash is defined as cash deposits in banks and time certificates of deposit with initial maturities of three months or less. Time certificates of deposits with initial maturities of more than three months are separately classified.

Credit risk associated with cash deposits is categorized into 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.

Category 3 – Uncollateralized.

The Authority has approximately $300,006 and $200,006 of cash and time deposits insured through the Federal Deposit Insurance Corporation and approximately $15,273,873 and $10,586,879 of uninsured and uncollateralized deposits as of September 30, 2004 and 2003, respectively.

Investment in Time Certificates of Deposit

The Authority has both the intent and the ability to hold its time certificates of deposit, carried at cost which approximates fair value, to maturity.

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

Summary of Significant Accounting Policies, Continued

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). Current policy is to capitalize items over $1,000.

Replacement Parts Inventories

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

Annual Leave

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

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The Authority is evaluating the impact of this law and accordingly no liability, if any, that may result has been recorded in the accompanying financial statements.

Risk Management

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

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

Summary of Significant Accounting Policies, Continued

Estimates

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

(2) Property, Plant and Equipment

A schedule of the Authority's property, plant and equipment as of September 30, 2004 and 2003 is as follows:

	Beginning Balance October 1, 2003	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2004
Depreciable assets:				
Buildings	$ 62,042,006	$ 193,237	$ -	$ 62,235,243
Equipment	19,797,296	293,378	(49,127)	20,041,547
	81,839,302	486,615	(49,127)	82,276,790
Less accumulated depreciation	(41,953,895)	(2,512,242)	42,272	(44,423,865)
	39,885,407	(2,025,627)	(6,855)	37,852,925
Non-depreciable assets:				
Land	3,563,000	-	-	3,563,000
Construction work in progress	486,610	421,555	-	908,165
	4,049,610	421,555	-	4,471,165
Total	$ 43,935,017	$ (1,604,072)	$ (6,855)	$ 42,324,090

	Beginning Balance October 1, 2002	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2003
Depreciable assets:				
Buildings	$ 62,063,664	$ 7,000	$ (28,658)	$ 62,042,006
Equipment	19,799,901	237,139	(239,744)	19,797,296
	81,863,565	244,139	(268,402)	81,839,302
Less accumulated depreciation	(39,768,852)	(2,591,988)	406,945	(41,953,895)
	42,094,713	(2,347,849)	138,543	39,885,407
Non-depreciable assets:				
Land	3,563,000	-	-	3,563,000
Construction work in progress	42,456	444,154	-	486,610
	3,605,456	444,154	-	4,049,610
Total	$ 45,700,169	$ (1,903,695)	$ 138,543	$ 43,935,017

(3) Earthquake and Typhoon Damages

On October 13, 2001, an earthquake with a magnitude of 7.0 on the Richter scale struck Guam. Damage to the Authority's property, plant and equipment as a direct result of the earthquake, totaled approximately $8 million, according to latest estimates. The Authority's insurance coverage is expected to absorb the final loss amount, less a $500,000 deductible. The Authority has received approximately $379,000 in reimbursements from the Federal Emergency Management Administration (FEMA) to cover most of the deductible amount.

On July 5, 2002, Typhoon Chata'an struck Guam with destructive winds in excess of 110 miles per hour. Most recent estimates of the damage to the Authority's property, plant and equipment, as a direct result of the typhoon, approximate $2,925,000. The Authority's insurance coverage is expected to absorb the final loss amount, less a $500,000 deductible. Authority management intends to seek reimbursement from federal sources for most of the deductible amount.

On December 8, 2002, Supertyphoon Pongsona struck Guam with destructive winds of approximately 180 miles per hour. Estimates of the damage to the Authority's property, plant and equipment, as a direct result of the typhoon, approximate $2,850,000. Under the Authority's insurance coverage for this disaster, the Authority is responsible for the first $5 million in damages, $2.5 million deductible and $2.5 million of required self-insurance. While the Authority is unable to obtain an insurance recovery for physical damage to its property, a claim for business interruption has been accepted. Authority management intends to seek reimbursement from federal sources for a portion of the deductible and self-insurance amounts. The Authority received approximately $492,000 from FEMA during fiscal year 2004.

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

(4) Employees' Retirement Plan

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

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

(4) Employees' Retirement Plan, Continued

As a result of actuarial valuations performed as of September 30, 2002, 2001 and 2000, contribution rates for the years ended September 30, 2004 and 2003 and 2002, respectively, have been determined as follows:

	2004	2003	2002
Normal costs (% of DB Plan payroll)	17.66%	16.42%	15.15%
Unfunded liability costs (% of total payroll)	16.23%	22.94%	18.58%
	33.89%	39.36%	33.73%
Employee contributions (DB Plan employees)	9.50%	9.50%	9.50%
	24.39%	29.86%	24.23%
Agency specific adjustments	- %	1.62%	.91%
Government contribution as a % of DB Plan payroll	24.39%	31.48%	25.14%
Government contribution as a % of total payroll	20.81%	29.25%	N/A

Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, for the year ended September 30, 2004. For the year ended September 30, 2003, statutory contribution rates for employer and employee contributions were initially set at 26% and 9.5%, respectively, by the Guam Legislature. The employer contribution rate was reduced to 18% by legislative action effective March 1, 2003.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and an assumed salary scale increase of 8.5% per annum for short service employees and 4% per annum for longer service employees. The most recent actuarial valuation performed as of September 30, 2002, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Authority as a separate sponsor, the accrued unfunded liability at September 30, 2004 and 2003 may be materially different than that recorded in the accompanying financial statements.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2004 and 2003, are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

(4) Employees' Retirement Plan, Continued

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

Retirement expense for the years ended September 30, 2004, 2003 and 2002 is as follows:

	2004	2003	2002
Cash contributions and accruals	$ 2,308,708	$ 2,658,122	$ 2,692,571
Increase (decrease) in accrued unfunded liability to the retirement fund	925,836	543,949	(113,364)
	$ 3,234,544	$ 3,202,071	$ 2,579,207

(5) Long Term Liabilities

Long term liabilities of the Authority consist of annual leave payable to its employees and its liability to the retirement fund. Changes in long-term liabilities for the years ended September 30, 2004 and 2003 are as follows:

	Outstanding at September 30, 2003	Increases	Decreases	Outstanding at September 30, 2004	Current	Noncurrent
Accrued annual leave	$ 1,276,600	$ -	$ (342,575)	$ 934,025	$ 796,000	$ 138,025
Accrued unfunded liability to retirement fund	2,318,766	925,836	-	3,244,602	-	3,244,602
	$ 3,595,366	$ 925,836	$ (342,575)	$ 4,178,627	$ 796,000	$ 3,382,627

	Outstanding at September 30, 2002	Increases	Decreases	Outstanding at September 30, 2003	Current	Noncurrent
Accrued annual leave	$ 1,489,166	$ -	$ (212,566)	$ 1,276,600	$ 910,564	$ 366,036
Accrued unfunded liability to retirement fund	1,774,817	543,949	-	2,318,766	-	2,318,766
	$ 3,263,983	$ 543,949	$ (212,566)	$ 3,595,366	$ 910,564	$ 2,684,802

(6) Contingencies

Lawsuits and Claims

As of September 30, 2004, the Authority has been named as defendant in several pending lawsuits and claims. The amount of potential loss as a direct result of these lawsuits and claims cannot presently be determined. As such, no provision has been recorded in the accompanying financial statements for these contingencies. The Authority intends to vigorously defend itself against all legal actions.

(6) Contingencies, Continued

Government of Guam General Fund

The Guam Legislature has enacted legislation that requires certain component units, including the Authority, to transfer certain amounts to the Government of Guam general fund on an annual basis. During the year ended September 30, 1994, the Authority transferred $500,000 to the General Fund pursuant to such legislation. In addition, during the year ended September 30, 1997, the Authority transferred $3,500,000 to the Government of Guam Autonomous Agency Infrastructure Collection Fund. The Governor of Guam and the board of directors, for the years ended September 30, 1987 through 1993, 1995, 1996 and 1998 through 2004, have not determined the Authority's allocated portions of these transfers. Accordingly, no liability for this contingency has been recorded in the accompanying financial statements.

(7) Major Customers

The Authority has five major shipping line customers that account for 79.7% and 79.1% of total operating revenues for the years ended September 30, 2004 and 2003, respectively. The Authority has a high concentration of credit risk due to the limited number of entities comprising its customer base.

(8) Rental Operations

The Authority, in cooperation with the Guam Economic Development and Commerce Authority (GEDCA), leases space to tenants under noncancelable operating leases, with options to renew, providing for future minimum rentals. The future minimum rental payments due from tenants under noncancelable operating leases in effect at September 30, 2004, are as follows:

Year Ending September 30,	Authority Share	GEDCA Share	Total
2005	$ 217,103	$ 311,601	$ 528,704
2006	332,389	174,146	506,535
2007	461,637	-	461,637
2008	461,637	-	461,637
2009 to 2011	968,141	-	968,141
	$ 2,440,907	$ 485,747	$ 2,926,654

The Authority also leases equipment and space to tenants on a month to month basis. Total equipment and lease space revenue from tenants for all rentals is $4,067,356 and $4,262,863, respectively, for the years ended September 30, 2004 and 2003.

(9) Accrued Supplemental/COLA Annuities

As required by Public Law 27-106, the Authority must pay to the Government of Guam Retirement Fund certain supplemental benefits paid to retirees for the year ended September 30, 2004. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered plan benefits.

(10) Adoption of New Accounting Standards

GASB Statement No. 40, *Deposit and Investment Risk Disclosure,* requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement establishes and modifies disclosure requirements for deposit and investment risk related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. This Statement is applicable to all state and local governments with implementation beginning in fiscal year 2005.

Beginning in fiscal year 2005, the Authority will be required to implement GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* GASB Statement No. 42 requires governments to evaluate circumstances surrounding capital assets to determine if service utility has declined significantly. If determined to be impaired, capital assets should be reported at the lower of carrying or fair value. Any insurance recoveries associated with events leading to an asset impairment should be netted against impairment losses.

As of September 30, 2004, the Authority has not evaluated the financial impact, if any, of the adoption of GASB Statement Nos. 40 and 42.

PORT AUTHORITY OF GUAM
(A Public Corporation)

Schedule 1
Schedule of Expenses
Years Ended September 30, 2004 and 2003

	2004	2003
Management and administration:		
Management:		
Salaries and wages - regular	$ 176,665	$ 292,004
Salaries and wages - other	-	564
Benefits - Government contribution	39,931	74,194
Fringe benefits	5,085	16,191
Miscellaneous	1,397	2,667
Total Management	223,078	385,620
Administration:		
Salaries and wages - regular	3,384,453	3,931,064
Salaries and wages - overtime	134,932	32,204
Salaries and wages - other	41,524	28,773
Benefits - Government contribution	1,106,923	1,056,406
Contractual	173,665	218,955
Fringe benefits	364,742	304,189
Travel and training	57,311	111,386
Repairs and maintenance	65,634	29,522
Office supplies	66,516	109,809
Miscellaneous	36,951	59,030
Total Administration	5,432,651	5,881,338
Total Management and Administration	$ 5,655,729	$ 6,266,958
Equipment Maintenance:		
Salaries and wages - regular	$ 1,345,382	$ 1,476,960
Salaries and wages - overtime	150,985	105,339
Salaries and wages - other	76,912	94,403
Parts, materials and supplies	605,549	878,416
Repairs and maintenance	1,479,592	1,226,921
Benefits - Government contribution	422,702	412,015
Fringe benefits	145,683	127,443
Contractual	-	125,780
Miscellaneous	5,725	13,862
Total Equipment Maintenance	$ 4,232,530	$ 4,461,139

See accompanying independent auditors' report.

PORT AUTHORITY OF GUAM
(A Public Corporation)

Schedule 1, Continued
Schedule of Expenses, Continued
Years Ended September 30, 2004 and 2003

	2004	2003
Transportation Services:		
Salaries and wages - regular	$ 1,440,922	$ 1,869,329
Salaries and wages - overtime	161,999	210,943
Salaries and wages - other	89,020	101,781
Benefits - Government contribution	609,442	603,200
Fringe benefits	176,953	183,976
Gas, oil and diesel	208,027	408,015
Miscellaneous	1,852	-
Total Transportation Services	$ 2,688,215	$ 3,377,244
Stevedoring Services:		
Salaries and wages - regular	$ 1,089,859	$ 1,443,854
Salaries and wages - overtime	181,335	198,499
Salaries and wages - other	66,472	57,611
Benefits - Government contribution	423,865	398,854
Fringe benefits	234,189	155,413
Miscellaneous	10,070	10,239
Total Stevedoring Services	$ 2,005,790	$ 2,264,470
Facility Maintenance:		
Salaries and wages - regular	$ 554,207	$ 594,831
Salaries and wages - overtime	11,999	6,467
Salaries and wages - other	6,419	7,407
Benefits - Government contribution	292,017	319,196
Fringe benefits	132,460	89,296
Parts, materials and supplies	91,551	82,350
Miscellaneous	4,000	29,670
Total Facility Maintenance	$ 1,092,653	$ 1,129,217
Terminal Services:		
Salaries and wages - regular	$ 808,783	$ 1,118,998
Salaries and wages - overtime	59,375	83,137
Salaries and wages - other	18,256	15,349
Benefits - Government contribution	339,665	338,206
Fringe benefits	101,265	91,591
Miscellaneous	7,693	11,679
Total Terminal Services	$ 1,335,037	$ 1,658,960

See accompanying independent auditors' report.

PORT AUTHORITY OF GUAM
(A Public Corporation)

Schedule 1, Continued
Schedule of Expenses, Continued
Years Ended September 30, 2004 and 2003

	2004	2003
General Expenses:		
Insurance consultants	$ 374,163	$ 463,053
Workmen's compensation injury allowance	231,540	246,259
GEDA land lease fee	200,000	200,000
Shell manager's fee	87,831	338,788
Miscellaneous	78,440	105,074
Legal counsel	66,133	156,744
Audit and consulting fees	41,000	28,620
Agency fee	33,262	34,737
Management discount	31,914	12,827
Repair and maintenance	20,686	-
Claims and damages	10,020	-
Inventory loss	5,186	51,808
Port incentive award	4,239	36,439
Professional services	-	308
Total General Expenses	$ 1,184,414	$ 1,674,657
Employees at end of year	331	356

See accompanying independent auditors' report.