PORT AUTHORITY OF GUAM
(A Public Corporation)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2001 AND 2000

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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, 2001 and 2000, 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 paragraph, 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, 2001 and 2000. As a result, we are unable to form an opinion on replacement parts inventories, carried at $359,198 and $318,024 at September 30, 2001 and 2000, respectively.

In our report dated November 5, 2001, we qualified our opinion on the 2000 financial statements because we were unable to satisfy ourselves as to the collectibility of long-term accounts receivable, carried at $2,000,000 at September 30, 2000 and 1999. As described at note 7, the Port has recorded an allowance for uncollectible amounts for the full $2,000,000 and has restated the 2000 financial statements to reflect the effects of the allowance. Accordingly, our present opinion on the 2000 financial statements, as presented herein, is different from that expressed in our previous report.

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, the accompanying financial statements present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2001 and 2000, 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.

As discussed in note 8 to the financial statements, the Port changed its method of accounting for nonexchange transactions to conform with Government Accounting Standards Board Statement No. 33 and has restated the 2000 financial statements to reflect the change.

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 October 25, 2002, 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.

Deloitte & Touche LLP

October 25, 2002, except for note 9, as to which the date is December 8, 2002

PORT AUTHORITY OF GUAM
(A Public Corporation)
Balance Sheets
September 30, 2001 and 2000

ASSETS	2001	1998 As restated (notes 7 and 8)
Current assets:		
Cash	$ 2,360,119	$ 3,009,754
Investments	1,200,000	
Accounts receivable, net of allowance for doubtful accounts of $1,362,259 in 2001 and $1,668,121 in 2000	2,495,363	3,053,104
Total current assets	6,055,484	6,062,858
Replacement parts inventories, net of allowance for obsolesence of $79,970 in 2001 and $170,399 in 2000	359,198	318,025
Property, plant and equipment, net (note 2)	48,736,108	51,834,174
Long-term accounts receivable, net (note7)	517,195	542,306
	$ 55,667,985	$ 58,757,363

LIABILITIES AND FUND EQUITY		
Current liabilities:		
Obligations under capital leases, current portion	$ -	$ 189,035
Accounts payable, trade	2,421,717	1,324,297
Security deposits and other payables	213,881	494,932
Accrued payroll and withholdings	423,333	402,866
Current portion of accrued annual leave	854,152	776,517
Total current liabilities	3,913,083	3,187,647
Accrued annual leave, less current portion	812,657	812,657
Obligations under capital leases, net of current portion	-	141,000
Unfunded pension costs (note 3)	11,288,081	11,500,262
Total liabilities	16,013,821	15,641,566
Retained earnings	39,654,164	43,115,797
Commitments and contingencies (notes 4, 6 and 9)		
	$ 55,667,985	$ 58,757,363

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
(A Public Corporation)
Statements of Operations and Retained Earnings
Years Ended September 30, 2001 and 2000

	2001	2000 As restated (notes 7 and8)
Operating revenues (notes 5 and 6):		
Cargo throughput charges	$ 15,854,098	$ 14,971,463
Wharfage charges	3,396,874	3,343,016
Equipment and space rental	3,939,204	3,555,486
Special services	368,804	351,485
Total operating revenues	23,558,980	22,221,450
Expenses:		
Management and administration	6,899,971	6,578,141
Equipment maintenance	3,780,367	3,868,316
Depreciation	3,325,808	3,552,895
Transportation services	2,989,784	3,082,189
Stevedoring services	2,263,353	2,459,476
Facility maintenance	1,875,640	1,955,428
Insurance	1,656,386	1,489,453
Terminal services	1,629,300	1,768,778
General Expenses	1,615,992	2,238,572
Utilities	1,316,292	1,145,977
Total expenses	27,352,893	28,139,225
Loss from operations	(3,793,913)	(5,917,775)
Other income and (expense):		
Interest income	210,271	193,650
Interest expense	-	(48,171)
Other non-operating income	201,334	273,331
Other expense	(79,325)	(585,677)
Total other income and (expense), net	332,280	(166,867)
Net loss	(3,461,633)	(6,084,642)
Retained earnings at beginning of year	43,115,797	49,200,439
Retained earnings at end of year	$ 39,654,164	$ 43,115,797

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
(A Public Corporation)
Statements of Cash Flows
Years Ended September 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Loss from operations	$ (3,793,913)	$ (5,917,775)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	3,325,808	3,352,895
Other income, net	147,570	273,331
Provisions for inventory obsolescence	-	124,305
(Increase) decrease in assets:		
Receivables	582,850	(914,751)
Replacement parts inventories	(41,173)	7,452
Increase (decrease) in liabilities:		
Accounts payable, trade	1,097,420	439,135
Accrued payroll and withholdings	20,467	(361,662)
Security Deposits and other payables	(281,051)	79,074
Accrued annual leave	77,635	(36,139)
Unfunded pension costs	(212,181)	(254,045)
Net cash provided by (used in) operating activities	923,432	(3,056,191)
Cash flows from investing activities:		
Interest received	210,271	193,650
Purchase of time certificate of deposit	1,200,000	-
Net cash (used in) provided by investing activities	(989,729)	193,650
Cash flows from capital and related financing activities:		
Purchase of property, plant and equipment	(307,067)	(61,800)
Principal payments of obligations under capital lease	(330,035)	(119,808)
Contributions received	53,764	16,552
Interest paid	-	(48,171)
Net cash used in capital and related financing activities	(583,338)	(213,227)
Net decrease in cash	(649,635)	(3,075,768)
Cash at beginning of year	3,009,754	6,085,522
Cash at end of year	$ 2,360,119	$ 3,009,754

See accompanying notes to financial statements.

(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. Time certificates of deposit with initial maturities of more than three months are separately classified as investments.

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

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

Cash, Continued

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 Port has approximately $271,590 and $272,960 of deposits insured through the Federal Deposit Insurance Corporation and approximately $3,288,528 and $2,736,794 of uninsured and uncollateralized deposits as of September 30, 2001 and 2000, respectively.

Investment

The Port has both the intent and ability to hold its time certificate of deposit, carried at original cost of $1,200,000 at September 30, 2001, to maturity.

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

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. Employees are credited with vacation leave at rates of 104, 156 or 208 hours per fiscal year, depending upon their service time with the Port. Accumulation of such vacation credits is normally limited to 480 hours at fiscal year end; however, management has exercised its authority in certain conditions to allow accumulation of up to 720 hours. All such vacation credit is convertible to pay upon termination of employment.

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

Risk Management

The Port 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 Port also has commercial property insurance coverage for 100% of the total net book value of property, plant and equipment. The Port is of the opinion that it has suffered no material losses in the past three years related to damages to property, plant and equipment.

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.

Reclassifications

Certain account balances in the 2000 financial statements have been reclassified to correspond with the 2001 financial statement presentation.

(2) Property, Plant and Equipment

A schedule of the Port's property, plant and equipment as of September 30, 2001 and 2000 is as follows:

	Estimated Useful Lives	2001	2000
Buildings and structures	40 years	$ 62,374,255	$ 62,228,107
Equipment	5-15 years	20,438,839	21,552,555
		82,813,094	83,780,662
Less: accumulated depreciation		37,836,154	35,608,822
		44,976,940	48,171,840
Construction-in-progress		196,168	99,334
Land		3,563,000	3,563,000
		$ 48,736,108	$ 51,834,174

(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.

(3) Employees Retirement Plan, Continued

As a result of the most recent actuarial valuation performed as of September 30, 2000, it has been determined that for the year ended September 30, 2001, a minimum combined employer and employee contribution rate of 34.64% 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 19.675%, respectively, for the year ended September 30, 2001. The effect of the Port's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 25.14% to an effective rate of 17.95% for the year ended September 30, 2001. In recognition of the above, at September 30, 2001, an accrual reduction of 1.725% of covered payroll is necessary to adjust the unfunded liability based on the difference between the effective rate of 17.95% and the employer's statutory rate of 19.675%. The effective employer accrual rate for the year ended September 30, 2000 was 16.53%.

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 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, 2000, 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, 2001 and 2000 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.

Employer contributions into the DCRS are based on a statutory amount of 19.675% 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 14.675% 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, 2001 and 2000 amounted to $2,392,895 and $3,480,600, respectively.

(4) Contingencies

Lawsuits and Claims

As of September 30, 2001, the Port has been named as defendant in 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 Port intends to vigorously defend itself against all legal actions.

(4) Contingencies, Continued

Government of Guam General Fund

The Guam Legislature has enacted legislation which requires certain component units, 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. 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 2001, have not determined the Port's allocated portions of these transfers. Accordingly, no liability for this contingency has been recorded in the accompanying financial statements.

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.

(5) Major Customers

The Port has five major shipping line customers which account for 77.6% and 76.5% of total operating revenues for the years ended September 30, 2001 and 2000, respectively. The Port has a high concentration of credit risk due to the limited number of entities comprising its customer base.

(6) 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, 2001, are as follows:

Year Ending September 30,	Port Share	GEDA Share	Total
2002	$ 272,704	$ 356,723	$ 629,427
2003	250,838	328,120	578,958
2004	250,795	328,064	578,859
2005	250,795	328,064	578,859
2006	241,253	315,582	556,835
Thereafter	313,136	409,613	722,749
	$ 1,579,521	$ 2,066,166	$ 3,645,687

(6) Rental Operations, Continued

The Port also leases equipment and space to tenants on a month to month basis. Total equipment and lease space revenue from tenants for all rentals are $3,939,204 and $3,555,486, respectively, for the years ended September 30, 2001 and 2000.

(7) 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.

In 2000, the Port paid $258,190 to retiring employees of the Port pursuant to enacted legislation which provided retirement incentives to employees who retired or voluntarily separated from the Government of Guam (early-out legislation). Management believes the amount paid is reimbursable by the Government of Guam according to provisions of the early-out legislation.

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, 2001 and 2000, the Port has recorded receivables of $1,490,450 and $1,515,561, respectively, from GEDA for GEDA's share of the BRAC steering committee's expenses. The Port has recorded an allowance for doubtful accounts of $973,255 at September 30, 2001 and 2000 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.

Long-term accounts receivable at September 30, 2001 and 2000, are as follows:

	2001	2000
Receivable from the Government of Guam general fund pursuant to transfer pursuant to Public Law 24-117	$ 2,000,000	$ 2,000,000
Receivable from the Government of Guam general fund for reimbursement of payments due to "early out" legislation	258,190	-
Receivable from GEDA for BRAC steering committee expenses	1,490,450	1,515,561
	3,748,640	3,515,561
Allowance for doubtful accounts	(3,231,445)	(2,973,255)
Net long-term accounts receivable	$ 517,195	$ 542,306

In 2001, the Port recorded an allowance for doubtful accounts for all receivables from the Government of Guam general fund. The Port restated the 2000 financial statements to reflect an additional $2 million allowance for doubtful accounts for the receivable from Government of Guam general fund at September 30, 2000. The effect of this restatement was to reduce long-term accounts receivable and beginning retained earnings by $2 million for the year ended September 30, 2000.

(7) Long-Term Receivable, Continued

In March 2002, the Port entered into an agreement with GEDA in which the Port will receive 50% of the proceeds from the sale of a drydock owned by GEDA in excess of $1,341,482, as settlement for the above receivable. The maximum the Port may receive under this settlement agreement is $1,427,715. The ultimate selling price of the drydock cannot presently be estimated.

(8) Adoption of New Accounting Principle

Effective October 1, 2000, the Port adopted GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions.” GASB No. 33 establishes more uniform revenue recognition criteria and financial reporting standards regarding the timing of recognition of the results of nonexchange transactions involving cash and other financial and capital resources. The provisions of GASB No. 33 were applied to all periods presented; and accordingly, the balance sheet and statement of operations for 2000 has been restated. Implementation of GASB No. 33 had no impact on the statement of cash flows.

(9) Subsequent Events

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 most of the deductible amount.

On July 5, 2002, Typhoon Chata’an struck Guam with destructive winds in excess of 110 miles per hour. Estimates of the damage to the Port's property, plant and equipment, as a direct result of the typhoon have not been determined. 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 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 Port’s property, plant and equipment, as a direct result of the typhoon have not been determined. The Port's insurance coverage is expected to absorb the final loss amount, less $5 million that consists of a $2.5 million deductible and $2.5 million of required self-insurance. Port management intends to seek reimbursement from federal sources for most of the deductible and self-insurance amounts.