

**PORT AUTHORITY OF GUAM
(A Public Corporation)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2003 AND 2002



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, 2003 and 2002, 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 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.

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, 2003 and 2002, 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.

The Management's Discussion and Analysis on pages 1 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 August 22, 2004 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.


August 22, 2004

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Management's Discussion and Analysis
September 30, 2003 and 2002

The following Management's Discussion and Analysis (MD&A) of activities and financial performance provides an introduction to the financial statements of the Port Authority of Guam (the Authority) for the fiscal year ended September 30, 2003, with comparative information for the year ended September 30, 2002. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The notes are essential to a full understanding of the data contained in the financial statements.

INTRODUCTION

In 1975, the Port Authority of Guam 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. The public law permits the Authority to provide for the needs of ocean commerce, shipping, recreational and commercial boating and navigation of the territory of Guam. The Authority is presided over by five board members appointed by the Governor of Guam with the advice and consent of the Legislature. The Board of Directors appoints the General Manager and Deputy General Manager, who are responsible for maintenance, operation and development of the Port and the Authority's business affairs.

The Authority operates the only commercial seaport in the territory and, as the primary seaport in Micronesia, serves as a transshipment point for the entire Western Pacific region. It operates the largest U.S. deepwater port in the region and currently handles about 2 million tons of cargo a year. The Authority owns 5 cargo-handling piers along with two fuel piers, three marinas and a harbor of refuge. The cost for operations and capital improvements are funded by and large from its own revenues.

Prior to fiscal year 2003, the Authority experienced a decline in revenues due to the Asian economic crisis, the terrorist attacks on September 11, 2001 in the US Mainland, an earthquake in October 2001 and Typhoon Chataan in July 2002. The Authority was also faced with other challenges in fiscal year 2003, including the lockout of longshoremen at US West Coast ports due to the failure of contract negotiations between October and November of 2002. As a result of the lockout, the Authority experienced a substantial drop in domestic cargo since approximately 80% of Guam's cargo passes through the Western US ports. Additionally, the threat of SARS and the continuing Global War on Terrorism had an adverse affect on the island's economy, resulting in less cargo demand.

Typhoon Pongsona also hit the island in December 2002 with winds of 184 mph. This affected the Authority's revenues for the first two months of the second quarter of fiscal year 2003. The Authority's efforts were once again divided between running the Authority's day-to-day cargo handling requirements and recovering from the damage caused by the typhoon. The Authority was also forced to close for a whole week following the storm as a result of a fire that engulfed four oil tanks located to the west of the administration building and the main terminal during the height of the typhoon. The fire continued to burn for the next week. The Authority experienced a drop in its operating revenues for the first five months and rebounded in the last seven months of the fiscal year.

A new administration was sworn in January 2003. The new board of directors and management team was faced with issues such as declining revenues, cash and budget shortfalls, failure of aging port equipment and poor performance on vessel operations. The Authority took several actions to resolve these setbacks. The Board began with a re-examination of the FY03 budget, changing it to a more accurate assessment of revenues and expenses. They discontinued funding for non-essential line items and placed more emphasis on direct operational expenses. Regular meetings with carriers and truckers to improve operations performance were implemented. An aggressive collection of aging receivables was begun. Management advocated teamwork to accomplish efficiency and enhance employee moral. And the Guam Legislature passed and the Governor signed Public Law 27-60 into law in December of

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2003 authorizing the Board of Directors to enter into a public-private partnership lease agreement for the terminal operations and maintenance of facilities and equipment at the Jose D. Leon Guerrero Commercial Port.

In fiscal year 2003, 2,164,116 revenue tons of cargo passed over the Authority's docks. This is an increase of 313,736 tons or 17% over the total revenue tons handled in fiscal year 2002. The Authority handled a total 113,165 revenue tons of breakbulk cargo and 2,050,951 revenue tons of container cargo. This equates to a 22% increase in breakbulk cargo and a 17% increase in container cargo volume as compared to the prior fiscal year.

The total number of containers handled for fiscal year 2003 was 82,310 containers, or 5% more than the 78,328 containers handled in fiscal year 2002. The breakdown of the total number of containers handled is 77% regular import and export containers, 20% transshipment, and 3% empty transshipments.

There were 1,900 vessels that docked at the Authority's wharves in fiscal year 2003. This number reflects a 4% decrease compared to the prior year. Container vessel arrivals remained almost the same for both fiscal years, which is 104 ships in 2003 and 105 in 2002. Breakbulk and RoRo vessels, however, increased from 200 to 220 vessels, a 10% increase. A total of 13 passenger vessels arrived in port for fiscal year 2003 compared to only 8 in 2002. Fishing vessels decreased by 8% in 2003 from 1,441 to 1,321 boats.

OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental accounting policy, practice and procedures fall under the auspices of the Governmental Accounting Standards Board (GASB). The Authority has implemented a reporting model mandated by GASB referred to as GASB Statement No. 34. The purpose of the new reporting model is to consolidate the two basic forms of governmental accounting, governmental (such as municipalities) and proprietary (those entities which generate its own revenues and therefore are similar to a private business such as the Authority) operations, into statements that give the reader a clear picture of the financial position of the government as a whole. The major changes that the Authority implemented as a result of the adoption of GASB No. 34 include the addition of this management discussion and analysis and the presentation of basic financial statements with a focus on the net assets of the Authority as well as the change in those net assets.

The financial statements are prepared on the accrual basis of accounting, therefore revenues are recognized when earned and expenses are recognized when incurred. Capital assets, except land, are capitalized and depreciated over their useful life. These statements and schedules, along with the MD&A are designed to provide readers with an understanding of the Authority's finances.

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The report includes the following three basic financial statements: the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows.

FINANCIAL POSITION SUMMARY

The statements of net assets present the financial position of the Port Authority of Guam at the end of the fiscal year. The statements include all assets and liabilities of the Authority. Net assets, the difference between total assets and total liabilities, are an indicator of the current fiscal health of the organization and the Port Authority's financial position over time. A summarized comparison of the Authority's assets, liabilities, and net assets at September 30, 2003 and 2002 is as follows:

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STATEMENTS OF NET ASSETS

ASSETS:	<u>2003</u>	<u>2002</u>
Current and other assets	\$ 16,370,683	\$ 5,508,502
Capital assets	<u>43,935,017</u>	<u>45,700,169</u>
Total Assets	<u>\$ 60,305,700</u>	<u>\$ 51,208,671</u>
LIABILITIES:		
Current liabilities	\$ 13,219,256	\$ 5,112,247
Long-term liabilities	<u>2,684,802</u>	<u>2,469,415</u>
Total Liabilities	\$ 15,904,058	\$ 7,581,662
NET ASSETS:		
Invested in Capital Assets	\$ 43,935,017	\$ 45,700,169
Unrestricted	<u>466,625</u>	<u>(2,073,160)</u>
Total net assets	<u>\$ 44,401,642</u>	<u>\$ 43,627,009</u>
Total liabilities and net assets	<u>\$ 60,305,700</u>	<u>\$ 51,208,671</u>

The Authority's assets exceeded liabilities by \$44.4 million at September 30, 2003. Net income of \$774 thousand for fiscal year 2003 resulted in a 1.8% increase in net assets over September 30, 2002. For the year ended 2003, the Authority's total assets have increased by 17.8% and total liabilities are also up by 109.8%, amounting to \$8.3 million. Included in total liabilities is accrued typhoon and earthquake damages in the amount of \$8.5 million representing monies received from insurance. Repairs and other expenses related to earthquake and typhoon damages have not transpired as of fiscal year 2003.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The change in net assets is an indicator of whether the overall fiscal condition of the Authority has improved or worsened during the year. Following is a summary of the statements of revenues, expenses, and changes in net assets:

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	<u>2003</u>	<u>2002</u>
Operating revenues	\$ 28,614,341	\$ 22,655,972
Operating expenses	<u>24,554,654</u>	<u>23,480,580</u>
Operating income before depreciation	4,059,687	(824,608)
Depreciation expense	<u>2,591,988</u>	<u>2,808,136</u>
Operating income(loss)	1,467,699	(3,632,744)
Non operating revenue (expense), net	<u>(1,053,066)</u>	<u>(2,249,048)</u>
Net income (loss) before capital contributions	414,633	(5,881,792)
Capital grant contributions	<u>360,000</u>	<u>454,737</u>
Increase (decrease) in net assets	774,633	(5,427,055)
Net assets-beginning of year	<u>43,627,009</u>	<u>49,054,064</u>
Net assets-end of year	<u>\$ 44,401,642</u>	<u>\$ 43,627,009</u>

FINANCIAL OPERATIONS HIGHLIGHTS

- Operating revenues increased by 26.3% from \$22.655 million to \$28.614 million due to significant increases in the Authority's cargo operations (both container and bulk). Cargo operations saw increases in virtually all categories: cargo throughput charges by 27.9%, wharfage charges by 21.9%, and equipment and space rental by 25.7%.
- Operating expenses increased by 4.57% or \$1.074 million because of increased expenses related to typhoon recovery and repairs and maintenance of various cargo equipment. Insurance expense in 2003 also increased by 35% compared to 2002.
- Operating income before depreciation increased by 592% from an operating loss of \$824,608 in FY 02 to an operating income of \$4,059,687 in FY 03. This is due to the increase of operating revenue and control measures on the Authority's expenses.
- Operating income (after depreciation) also shows an increase of 140% from a loss of \$3.633 million to income of \$1.468 million. Depreciation and amortization expense went down by 8% compared to fiscal year 2002.
- Net income (after non operating revenue (expenses), net and capital grants contributions) for 2003 was \$775 thousand compared to a net loss of \$5.427 million in 2002. This increase was due to the 53% decrease of non-operating revenue (expense), net from a negative of \$2.249 million in 2002 to a negative \$1.053 million in 2003.

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.

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REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. Questions concerning this report or request for additional information should be addressed to Jojo Guevara, Financial Affairs 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.

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Statements of Net Assets
September 30, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets:		
Cash	\$ 10,786,885	\$ 2,193,425
Accounts receivable, net of allowance for doubtful accounts of \$1,321,243 in 2003 and \$980,599 in 2002	3,763,948	2,635,269
Insurance and FEMA recoveries receivable	<u>1,626,176</u>	<u>501,231</u>
Total current assets	16,177,009	5,329,925
Replacement parts inventories, net of allowance for obsolescence of \$243,937 in 2003 and \$259,970 in 2002	193,674	178,577
Property, plant and equipment, net	<u>43,935,017</u>	<u>45,700,169</u>
	<u>\$ 60,305,700</u>	<u>\$ 51,208,671</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable, trade	\$ 2,038,290	\$ 1,961,891
Security deposits and other payables	266,614	324,338
Accrued typhoon and earthquake damages	8,537,915	468,958
Accrued payroll and withholdings	430,007	421,320
Accrued supplemental/COLA annuities	1,035,866	1,141,172
Current portion of accrued annual leave	<u>910,564</u>	<u>794,568</u>
Total current liabilities	13,219,256	5,112,247
Accrued annual leave, less current portion	366,036	694,598
Unfunded pension costs	<u>2,318,766</u>	<u>1,774,817</u>
Total liabilities	<u>15,904,058</u>	<u>7,581,662</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	43,935,017	45,700,169
Unrestricted	<u>466,625</u>	<u>(2,073,160)</u>
Total net assets	<u>44,401,642</u>	<u>43,627,009</u>
	<u>\$ 60,305,700</u>	<u>\$ 51,208,671</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	2003	2002
Operating revenues:		
Cargo throughput charges	\$ 20,215,278	\$ 15,810,937
Wharfage charges	3,840,560	3,150,118
Equipment and space rental	4,262,863	3,390,062
Special services	295,640	304,855
Total operating revenues	28,614,341	22,655,972
Operating expenses:		
Management and administration	6,266,958	6,147,538
Equipment maintenance	4,461,139	3,316,609
Transportation services	3,377,244	2,963,313
Depreciation	2,591,988	2,808,136
Insurance	2,484,191	1,838,496
Stevedoring services	2,264,470	2,381,839
General expenses	1,674,657	1,911,718
Terminal services	1,658,960	1,645,358
Facility maintenance	1,129,217	2,038,864
Utilities	830,679	719,650
Bad debts	407,139	517,195
Total operating expenses	27,146,642	26,288,716
Earnings (loss) from operations	1,467,699	(3,632,744)
Nonoperating revenues (expenses):		
Interest income	145,185	167,963
Other non-operating income	297,497	129,533
COLA/supplemental annuities	(569,154)	(1,141,172)
Write-off of abandoned asset	-	(946,134)
Other expense	(34,625)	(32,097)
Estimated typhoon loss	(880,969)	(317,373)
Earthquake loss	(11,000)	(109,768)
Total nonoperating revenues (expenses), net	(1,053,066)	(2,249,048)
Earnings (loss) before capital contributions	414,633	(5,881,792)
Capital contributions:		
Grants from the U.S. Government	360,000	454,737
Increase (decrease) in net assets	774,633	(5,427,055)
Net assets at beginning of year	43,627,009	49,054,064
Net assets at end of year	\$ 44,401,642	\$ 43,627,009

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from customers	\$ 27,376,020	\$ 22,144,370
Cash payments to suppliers for goods and services	(9,645,387)	(7,708,840)
Cash payments to employees for services and benefits	<u>(16,174,077)</u>	<u>(15,279,452)</u>
Net cash provided by (used in) operating activities	<u>1,556,556</u>	<u>(843,922)</u>
Cash flows from investing activities:		
Interest received	145,185	167,963
Sale of time certificate of deposit	-	<u>1,200,000</u>
Net cash provided by investing activities	<u>145,185</u>	<u>1,367,963</u>
Cash flows from capital and related financing activities:		
Insurance and FEMA claims received	9,364,469	500,000
Earthquake and typhoon costs	(2,005,914)	(927,141)
Purchase of property, plant and equipment	(826,836)	(718,331)
Contributions from the U.S. Government	<u>360,000</u>	<u>454,737</u>
Net cash provided by (used in) capital and related financing activities	<u>6,891,719</u>	<u>(690,735)</u>
Net increase (decrease) in cash	8,593,460	(166,694)
Cash at beginning of year	<u>2,193,425</u>	<u>2,360,119</u>
Cash at end of year	<u>\$ 10,786,885</u>	<u>\$ 2,193,425</u>
Reconciliation of earnings (loss) from operations to net cash provided by (used in) operating activities:		
Earnings (loss) from operations	\$ 1,467,699	\$ (3,632,744)
Adjustments to reconcile earnings (loss) from operations to net cash provided by (used in) operating activities:		
Depreciation	2,591,988	2,808,136
Payments for COLA/supplemental annuities	(674,460)	-
Bad debts	407,139	517,195
(Increase) decrease in assets:		
Receivables	(2,544,833)	(511,602)
Replacement parts inventories	(15,097)	180,621
Increase (decrease) in liabilities:		
Accounts payable, trade	76,399	(459,826)
Accrued payroll and withholdings	8,687	(2,013)
Security deposits and other payables	(92,349)	547,318
Accrued annual leave	(212,566)	(177,643)
Unfunded pension costs	<u>543,949</u>	<u>(113,364)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,556,556</u>	<u>\$ (843,922)</u>

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2003 and 2002

(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.

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Notes to Financial Statements
September 30, 2003 and 2002

(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 by 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, 2003 and 2002.

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.

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 \$200,006 and \$101,756 of cash deposits insured through the Federal Deposit Insurance Corporation and approximately \$10,586,879 and \$2,091,669 of uninsured and uncollateralized deposits as of September 30, 2003 and 2002, respectively.

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.

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

Summary of Significant Accounting Policies, Continued

Replacement Parts Inventories

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

Annual Leave

Compensated absences are accrued and reported as a liability in the period earned. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. Employees are credited with vacation leave at rates of 104, 156 or 208 hours per fiscal year, depending upon their service time with the Authority. Accumulation of such vacation credits is normally limited to 480 hours at fiscal year end. All such vacation credit is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave to 320 hours. Any annual leave earned in excess of 320 hours but not to exceed 100 hours as of February 28, 2003 shall be credited to the employee's sick leave. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003 may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, that portion permitted to be credited to sick leave shall be so credited and the remainder of the excess leave, if any, shall be lost. Public Law 27-106 does not allow lump sum compensation or retirement credit for annual leave in excess of three hundred twenty (320) hours.

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 Government of Guam 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.

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.

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Notes to Financial Statements
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(1) Organization and Summary of Significant Accounting Policies, Continued

Summary of Significant Accounting Policies, Continued

Reclassifications

Certain account balances in the 2002 financial statements have been reclassified to correspond with the 2003 financial statement presentation.

(2) Property, Plant and Equipment

A schedule of the Authority's property, plant and equipment as of September 30, 2003 and 2002 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2002</u>	<u>Transfers</u> <u>and Additions</u>	<u>Transfers</u> <u>and Deletions</u>	<u>Ending Balance</u> <u>September 30, 2003</u>
<u>Depreciable assets:</u>				
Buildings	\$ 62,063,664	\$ 7,000	\$ (28,658)	\$ 62,042,006
Equipment	<u>19,799,901</u>	<u>237,139</u>	<u>(239,744)</u>	<u>19,797,296</u>
	81,863,565	244,139	(268,402)	81,839,302
Less accumulated depreciation	<u>(39,768,852)</u>	<u>(2,591,988)</u>	<u>406,945</u>	<u>(41,953,895)</u>
	<u>42,094,713</u>	<u>(2,347,849)</u>	<u>138,543</u>	<u>39,885,407</u>
<u>Non-depreciable assets:</u>				
Land	3,563,000	-	-	3,563,000
Construction work in progress	<u>42,456</u>	<u>444,154</u>	<u>-</u>	<u>486,610</u>
	<u>3,605,456</u>	<u>444,154</u>	<u>-</u>	<u>4,049,610</u>
Total	\$ <u>45,700,169</u>	\$ <u>(1,903,695)</u>	\$ <u>138,543</u>	\$ <u>43,935,017</u>
	<u>Beginning Balance</u> <u>October 1, 2001</u>	<u>Transfers</u> <u>and Additions</u>	<u>Transfers</u> <u>and Deletions</u>	<u>Ending Balance</u> <u>September 30, 2002</u>
<u>Depreciable assets:</u>				
Buildings	\$ 62,374,255	\$ 740,670	\$ (1,051,261)	\$ 62,063,664
Equipment	<u>20,438,838</u>	<u>208,106</u>	<u>(847,043)</u>	<u>19,799,901</u>
	82,813,093	948,776	(1,898,304)	81,863,565
Less accumulated depreciation	<u>(37,836,154)</u>	<u>(2,808,136)</u>	<u>875,438</u>	<u>(39,768,852)</u>
	<u>44,976,939</u>	<u>(1,859,360)</u>	<u>(1,022,866)</u>	<u>42,094,713</u>
<u>Non-depreciable assets:</u>				
Land	3,563,000	-	-	3,563,000
Construction work in progress	<u>196,169</u>	<u>586,957</u>	<u>(740,670)</u>	<u>42,456</u>
	<u>3,759,169</u>	<u>586,957</u>	<u>(740,670)</u>	<u>3,605,456</u>
Total	\$ <u>48,736,108</u>	\$ <u>(1,272,403)</u>	\$ <u>(1,763,536)</u>	\$ <u>45,700,169</u>

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(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 by their insurance company as noted below. Authority management intends to seek reimbursement from federal sources for a portion of the deductible and self-insurance amounts. The Authority received approximately \$414,000 from FEMA subsequent to September 30, 2003.

Earthquake Damages:	
Estimated damages	\$ 8,000,000
Estimated insurance recoveries	(7,500,000)
FEMA recoveries	<u>(379,232)</u>
Loss	120,768
Costs already incurred	(602,059)
Add: Insurance and FEMA proceeds received	
at September 30, 2003	<u>7,879,232</u>
Accrued earthquake costs	
at September 30, 2003	\$ <u>7,397,941</u>
Typhoon Chataaan Damages:	
Estimated damages	\$ 2,924,943
Estimated insurance recoveries	(2,424,943)
FEMA recoveries	<u>(182,627)</u>
Loss	317,373
Costs already incurred	(998,818)
Add: Insurance and FEMA proceeds received	
at September 30, 2003	<u>1,604,935</u>
Accrued typhoon costs	
at September 30, 2003	\$ <u>923,490</u>

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(3) Earthquake and Typhoon Damages, Continued

Typhoon Pongsona Damages:	
Estimated damages	\$ 2,847,879
Estimated insurance recoveries	(1,283,429)
FEMA recoveries	<u>(683,481)</u>
Loss	880,969
Costs already incurred	(2,631,396)
Add: Insurance and FEMA proceeds received as of September 30, 2003	<u>380,302</u>
Insurance and FEMA recoveries receivable at September 30, 2003, net of accrued typhoon costs of \$216,483	\$ <u>(1,370,125)</u>

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). 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.

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.

As a result of the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2003, a minimum combined employer and employee contribution rate of 40.98% 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 employer and employee contributions were initially set at 26% and 9.5%, respectively, by the Guam Legislature for the year ended September 30, 2003. The employer contribution rate was reduced to 18% by legislative action, effective March 1, 2003. Statutory contribution rates for employee and employer contributions were 9.5% and 19.8016%, respectively, for the year ended September 30, 2002.

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, 2001, 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, 2003 and 2002 may be materially different than that recorded in the accompanying financial statements.

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(4) Employees' Retirement Plan, Continued

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, 2003 and 2002, 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.

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, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002</u>
Cash contributions and accruals	\$ 2,658,122	\$ 2,692,571
Increase (decrease) in accrued unfunded liability to the retirement fund	<u>543,949</u>	<u>(113,364)</u>
	<u>\$ 3,202,071</u>	<u>\$ 2,579,207</u>

(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, 2003 and 2002 are as follows:

	<u>Outstanding at</u> <u>September 30,</u> <u>2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding at</u> <u>September 30,</u> <u>2003</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued annual leave	\$ 1,489,166	\$ -	\$ (212,566)	\$ 1,276,600	\$ 910,564	\$ 366,036
Accrued unfunded liability to retirement fund	<u>1,774,817</u>	<u>543,949</u>	<u>-</u>	<u>2,318,766</u>	<u>-</u>	<u>2,318,766</u>
	<u>\$ 3,263,983</u>	<u>\$ 543,949</u>	<u>\$ (212,566)</u>	<u>\$ 3,595,366</u>	<u>\$ 910,564</u>	<u>\$ 2,684,802</u>
	<u>Outstanding at</u> <u>September 30,</u> <u>2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding at</u> <u>September 30,</u> <u>2002</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued annual leave	\$ 1,666,809	\$ -	\$ (177,643)	\$ 1,489,166	\$ 794,568	\$ 694,598
Accrued unfunded liability to retirement fund	<u>1,888,181</u>	<u>-</u>	<u>(113,364)</u>	<u>1,774,817</u>	<u>-</u>	<u>1,774,817</u>
	<u>\$ 3,554,990</u>	<u>\$ -</u>	<u>\$ (291,007)</u>	<u>\$ 3,263,983</u>	<u>\$ 794,568</u>	<u>\$ 2,469,415</u>

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Notes to Financial Statements
September 30, 2003 and 2002

(6) Contingencies

Lawsuits and Claims

As of September 30, 2003, the Authority has been named as defendant in several pending lawsuits and claims. The amount of potential loss as a direct result of these lawsuits and claims cannot presently be determined. As such, no provision has been recorded in the accompanying financial statements for these contingencies. The Authority intends to vigorously defend itself against all legal actions.

Government of Guam General Fund

The Guam Legislature has enacted legislation that requires certain component units, including the Authority, to transfer certain amounts to the Government of Guam general fund on an annual basis. During the year ended September 30, 1994, the Authority transferred \$500,000 to the General Fund pursuant to such legislation. In addition, during the year ended September 30, 1997, the Authority transferred \$3,500,000 to the Government of Guam Autonomous Agency Infrastructure Collection Fund. The Governor of Guam and the board of directors, for the years ended September 30, 1987 through 1993, 1995, 1996 and 1998 through 2003, 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 79.1% and 75.9% of total operating revenues for the years ended September 30, 2003 and 2002, 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, 2003, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Authority</u> <u>Share</u>	<u>GEDCA Share</u>	<u>Total</u>
2004	\$ 216,810	\$ 310,994	\$ 527,804
2005	216,810	310,994	527,804
2006	331,842	173,793	505,635
2007	460,737	-	460,737
2008	460,737	-	460,737
2009 to 2011	<u>965,514</u>	<u>-</u>	<u>965,514</u>
	\$ <u>2,655,450</u>	\$ <u>795,781</u>	\$ <u>3,448,231</u>

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 \$4,262,863 and \$3,390,062, respectively, for the years ended September 30, 2003 and 2002.

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September 30, 2003 and 2002

(9) Accrued Supplemental/COLA Annuities

As required by Public Law 26-35, as amended by 26-49, the Authority must pay to the Government of Guam Retirement Fund certain supplemental benefits paid to retirees for the year ended September 30, 2003. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered plan benefits.

(10) Write-Off of Abandoned Asset

The Authority identified certain improvements that will not provide any future benefit to the Authority. As a result, the Authority has written off the assets' entire net book value of \$946,134 at September 30, 2002.

(11) 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.

(12) Subsequent Event

On August 22, 2004, due to rough seas caused by Typhoon Chaba, a North Korean vessel, M/V Ajman 2, was forced to make an emergency stop at the commercial port. As a result of being docked at the Authority during the storm, the Authority suffered some surface and internal damage along Pier 5. The Authority's initial estimate for the repair of external damages sustained is \$352,000. However, a more in-depth inspection of the area could result in damages in excess of \$1 million.

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Schedule 1
Schedule of Expenses
Years Ended September 30, 2003 and 2002

	2003	2002
Management and administration:		
Management:		
Salaries and wages - regular	\$ 292,004	\$ 429,274
Salaries and wages - other	564	85
Benefits - Government contribution	74,194	84,739
Fringe benefits	16,191	30,452
Miscellaneous	2,667	4,028
Total Management	385,620	548,578
Administration:		
Salaries and wages - regular	3,931,064	3,818,220
Salaries and wages - overtime	32,204	32,831
Salaries and wages - other	28,773	51,686
Benefits - Government contribution	1,056,406	830,417
Contractual	218,955	264,734
Fringe benefits	304,189	287,522
Travel and training	111,386	133,282
Repairs and maintenance	29,522	68,687
Office supplies	109,809	61,634
Miscellaneous	59,030	49,947
Total Administration	5,881,338	5,598,960
Total Management and Administration	\$ 6,266,958	\$ 6,147,538
Equipment Maintenance:		
Salaries and wages - regular	\$ 1,476,960	\$ 1,356,526
Salaries and wages - overtime	105,339	142,816
Salaries and wages - other	94,403	96,379
Parts, materials and supplies	878,416	506,599
Repairs and maintenance	1,226,921	654,355
Benefits - Government contribution	412,015	279,834
Fringe benefits	127,443	112,029
Contractual	125,780	154,559
Miscellaneous	13,862	13,512
Total Equipment Maintenance	\$ 4,461,139	\$ 3,316,609

See accompanying independent auditors' report.

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Schedule 1, Continued
Schedule of Expenses, Continued
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Transportation Services:		
Salaries and wages - regular	\$ 1,869,329	\$ 1,994,687
Salaries and wages - overtime	210,943	70,404
Salaries and wages - other	101,781	91,845
Benefits - Government contribution	603,200	455,441
Fringe benefits	183,976	175,291
Gas, oil and diesel	408,015	173,198
Miscellaneous	-	2,447
	<u> </u>	<u> </u>
Total Transportation Services	<u>\$ 3,377,244</u>	<u>\$ 2,963,313</u>
Stevedoring Services:		
Salaries and wages - regular	\$ 1,443,854	\$ 1,649,356
Salaries and wages - overtime	198,499	142,722
Salaries and wages - other	57,611	91,725
Benefits - Government contribution	398,854	336,355
Fringe benefits	155,413	151,331
Miscellaneous	10,239	10,350
	<u> </u>	<u> </u>
Total Stevedoring Services	<u>\$ 2,264,470</u>	<u>\$ 2,381,839</u>
Facility Maintenance:		
Salaries and wages - regular	\$ 594,831	\$ 1,327,605
Salaries and wages - overtime	6,467	21,609
Salaries and wages - other	7,407	14,806
Benefits - Government contribution	319,196	330,093
Parts, materials and supplies	82,350	158,552
Fringe benefits	89,296	116,866
Miscellaneous	29,670	69,333
	<u> </u>	<u> </u>
Total Facility Maintenance	<u>\$ 1,129,217</u>	<u>\$ 2,038,864</u>
Terminal Services:		
Salaries and wages - regular	\$ 1,118,998	\$ 1,210,766
Salaries and wages - overtime	83,137	60,626
Salaries and wages - other	15,349	22,022
Benefits - Government contribution	338,206	262,328
Fringe benefits	91,591	83,766
Miscellaneous	11,679	5,850
	<u> </u>	<u> </u>
Total Terminal Services	<u>\$ 1,658,960</u>	<u>\$ 1,645,358</u>

See accompanying independent auditors' report.

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Schedule 1, Continued
Schedule of Expenses, Continued
Years Ended September 30, 2003 and 2002

	2003	2002
General Expenses:		
Insurance consultants	\$ 463,053	\$ 12,378
Shell manager's fee	338,788	209,283
Workmen's compensation injury allowance	246,259	93,968
GEDA land lease fee	200,000	200,000
Legal counsel	156,744	776,478
Miscellaneous	105,074	145,435
Inventory loss	51,808	174,250
Port incentive award	36,439	18,591
Agency fee	34,737	31,277
Audit and consulting fees	28,620	14,000
Management discount	12,827	5,218
Professional services	308	15,340
Claims and damages	-	111,544
Tariff study	-	65,600
Repair and maintenance	-	38,356
	\$ 1,674,657	\$ 1,911,718
Employees at end of year	356	398

See accompanying independent auditors' report.