PORT AUTHORITY OF GUAM
(A Public Corporation)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2002 AND 2001

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, Guam 96913-3911

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

Deloitte Touche Tohmatsu

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, 2002 and 2001, and the related statements of operations and change in net assets 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. As a result, we are unable to form an opinion on replacement parts inventories, carried at $359,198 at September 30, 2001.

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 at September 30, 2001, the accompanying financial statements present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2002 and 2001, 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 9 to the financial statements, the Port adopted Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments* as amended by Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Disclosures*. The accompanying 2001 financial statements have been restated to reflect the changes required by GASB Nos. 34, 37 and 38.

Additionally, as discussed in note 4, the Port adopted Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees,* as of October 1, 2001. The accompanying 2001 financial statements have been restated to reflect the changes required by the adoption of this Statement.

Management's discussion and analysis on pages 1 through 3 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 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 10, 2003, 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 10, 2003

PORT AUTHORITY OF GUAM
(A Public Corporation)

Management's Discussion and Analysis
September 30, 2002 and 2001

This section of the Port Authority of Guam's (the Authority's) annual financial report presents our discussion and analysis of the Authority's financial performance for the years ended September 30, 2002 and 2001. Please read it in conjunction with the financial statements, which follow this section.

Port Authority of Guam operates the largest U.S. deepwater port in the Western Pacific. The Authority was established as an autonomous agency of the Government of Guam in 1975 and currently handles about 2 million tons of cargo a year. PAG is 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. Equipped to handle the diversified interests of the containerized, break bulk, fish, as well as passenger traffic, the port provides services to Hawaii, U.S. Mainland, Asia and Micronesia.

The past two fiscal years have been very challenging to the Port Authority of Guam. Fiscal year 2001 was faced with continued economic slowdown in Asia and the island. The terrorist attack that occurred on September 11, 2001 has affected the flow of cargo to the Port and a downturn on the local businesses. On October 13, 2001, Guam was strucked by an earthquake with a magnitude of 7.0 on the Richter scale. Major damages were on the F1 pier, gantry rails, administration building, equipment and other properties of the Port. The estimated damage was approximately $8 million. Another typhoon directly hit Guam in July 5, 2002, which was called Typhoon Chataan. The outcomes of strong winds of over 110 miles per hour were damages on Port's terminal yard, gantry cranes, marinas, buildings and other properties. The total damages is approximately $3 million.

The Port has watched its revenues steadily decline over the past two years. Immediately we went into action to control our expenses and to make the Port run more efficiently. We established several committees to address revenue generation and cost savings as well as operational efficiency. These committees continue to meet on a regular basis and to formulate policy to improve our Port.

In Fiscal Year 2002, 1,839,338 tons of cargo passed over our docks, 66% of this total tonnage are domestic cargos and 34% are coming from foreign vessels. The total domestic tonnages for container cargos went down by 3% and break bulk cargos decreased by 45% compared to fiscal year 2001. The average tonnage for fiscal years 2001 and 2002 went down by almost 7% compared to the average of fiscal years 1999 and 2000. The total number of containers handled in 2002 was 78,328 containers. It is 1% less than the total number of containers in fiscal year 2001. The composition of the total number of containers for FY 2002 was 36% import, 36% export and 28% transshipment. Vessel calls for fiscal year 2002 was a total of 1,975 vessels. The following are vessel counts of those highly related to Port operations: 105 – container ships, 217 – break bulk and roll on - roll off vessels, 101 – tugs and barges, 1,441- fishing vessels, 91- tankers and 8 – passenger vessels.

The Authority retained the Cornell Group, Inc. to perform a comprehensive review and revision of the existing terminal tariff in August of 2001. One of the major reasons why the Port has been averaging a net loss is that there has been no increase in the major container charges since 1993 and other rates has been unchanged since 1983, while labor and other costs have risen with an inflated economy. In comparison with Guam, tariffs at other US ports are significantly higher for most services such as dockage rates are 120% to 320% higher, while container throughput rates can be up to 20% higher. There were two objectives in revising the Port's tariff rates – making the port economically viable and not adversely affecting the economy of Guam. The recommended tariff was supposed to take in effect by the end of fiscal year 2002 but the prior administration has decided to hold off the process.

PORT AUTHORITY OF GUAM
(A Public Corporation)

Management's Discussion and Analysis
September 30, 2002 and 2001

The following table summarizes the financial condition and operations of the Authority for 2002 and 2001.

Assets	2002	2001
Property, plant and equipment net	$ 45,700,169	$ 48,736,108
Current assets	5,329,925	6,055,484
Other assets	178,577	876,393
	$ 51,208,671	$ 55,667,985
Liabilities and Net Assets		
Long-term debt, net	$ 2,469,415	$ 2,700,838
Current portion of long-term debt	794,568	854,152
Other current liabilities	4,317,679	3,058,931
Net assets	43,627,009	49,054,064
	$ 51,208,671	$ 55,667,985
Revenues, Expenses, and Changes in Net Assets		
Operating revenues	$ 22,655,972	$ 23,558,980
Operating expenses	26,288,716	27,352,893
Net operating revenues (loss)	(3,632,744)	(3,793,913)
Interest income and other	297,496	411,605
Other expense	(2,546,544)	(79,325)
Net other income and (expenses)	(2,249,048)	332,280
Capital contributions	454,737	-
Increase (decrease) in net assets	$ (5,427,055)	$ (3,461,633)

PORT AUTHORITY OF GUAM
(A Public Corporation)

Management's Discussion and Analysis
September 30, 2002 and 2001

Financial Highlights

Revenues from operations declined in 2002 by 3.8% from $23.6 million to $22.7 million. The revenue decline can be attributed to the following events: 9-11 incident in the US Mainland, October 2001 earthquake and Typhoon Chata'an on July 5, 2002. Major revenue sources of the Authority for fiscal year 2002 were: Cargo throughput - $13,880,882, Transshipment - $1,930,055, Wharfage - $3,150,118 and Facility Usage - $3,390,062.

Expenses from operations also declined in 2002 by 4.0% from $27.4 million to $26.3 million. Major decreases in expenses on management and administration salaries and the Authority's utilities. There were positions that were vacated in the management and administration side, which were not filled in 2002. Utilities in fiscal year 2002 have decreased by 45% distinctively on the power charges. The Authority had been aggressive in identifying cost saving measures but it doesn't consider it a primary reason for the drop on this particular expense.

Loss from Operations for fiscal year 2002 was lower than Fiscal year 2001 by 4.7%. Total Net Loss, including other income and expense, went up in 2002 by 25.8%. The primary reason for the increase was the typhoon preparation and cleanup expenses, which the Authority is claiming for reimbursement with FEMA and it's insurance carrier.

On the balance sheet components, Cash and Investment in 2002 went down from $3.5 million to $2.2 million. Earthquake emergency repairs of the Authority's properties and Typhoon Chata'an expenses are two major reasons for the depletion on the Port's cash flow. Reimbursements for earthquake and typhoon claims from FEMA and the Port's insurance were partially received in Fiscal year 2003.

The Authority's trade receivables had a slight increase compared to 2001 by 5.6% from $2.5 million to $2.6 million. The September 11 incident had an effect in the island's businesses wherein customers proposed a deferred payment plan to meet their obligations with the Port.

Although the Port's receivables went up, it's trade liabilities went down by 18% from $2.4 million to $2.0 million. It has continuously met its financial obligations with its vendors, salaries, employee payroll deductibles and other commitments.

The only long term liability of the Port are composed of non-current accrued payroll and unfunded pension cost. This liability decreased in 2002 by 4% from $2.7 million to $2.5 million.

Plan of Action for 2003

In January of 2003, the Port Authority of Guam had a change in top management and a new board of directors. The following are the course of action taken by the new team in resolving the issues of the Authority:

1. Re-examine the budget and made straightforward assessment of revenues and expenses
2. Promote customer relations and accountability
3. Advocate teamwork in Port operations to accomplish efficiency and enhance employee moral
4. Stopped all non essential expenses and promote cost saving measures
5. Aggressive collection of Port aging receivables
6. Initiate Carriers and Truckers weekly meetings
7. To venture into public-private partnership for cargo operations

PORT AUTHORITY OF GUAM
(A Public Corporation)

Balance Sheets
September 30, 2002 and 2001

ASSETS	2002	2001 As restated
Current assets:		
Cash	$ 2,193,425	$ 2,360,119
Investments	-	1,200,000
Accounts receivable, net of allowance for doubtful accounts of $980,599 in 2002 and $1,362,259 in 2001	2,635,269	2,495,365
Insurance recovery receivable	501,231	-
Total current assets	5,329,925	6,055,484
Replacement parts inventories, net of allowance for obsolesence of $259,970 in 2002 and $79,970 in 2001	178,577	359,198
Property, plant and equipment, net	45,700,169	48,736,108
Long-term accounts receivable, net	-	517,195
	$ 51,208,671	$ 55,667,985

LIABILITIES AND NET ASSETS	2002	2001 As restated
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable, trade	$ 1,961,891	$ 2,421,717
Security deposits and other payables	324,338	213,881
Accrued typhoon and earthquake damages	468,958	-
Accrued payroll and withholdings	421,320	423,333
Accrued supplemental/COLA annuities	1,141,172	-
Current portion of accrued annual leave	794,568	854,152
Total current liabilities	5,112,247	3,913,083
Accrued annual leave, less current portion	694,598	812,657
Unfunded pension costs	1,774,817	1,888,181
Total liabilities	7,581,662	6,613,921
Commitments and contingencies		
Net assets:		
Invested in capital assets	45,700,169	48,736,108
Unrestricted	(2,073,160)	317,956
Total net assets	43,627,009	49,054,064
	$ 51,208,671	$ 55,667,985

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
(A Public Corporation)

Statements of Operations and Changes in Net Assets
Years Ended September 30, 2002 and 2001

	2002	2001 As restated
Operating revenues:		
Cargo throughput charges	$ 15,810,937	$ 15,854,098
Wharfage charges	3,150,118	3,396,874
Equipment and space rental	3,390,062	3,939,204
Special services	304,855	368,804
Total operating revenues	22,655,972	23,558,980
Expenses:		
Management and administration	6,147,538	6,899,971
Equipment maintenance	3,316,609	3,780,367
Transportation services	2,963,313	2,989,784
Depreciation	2,808,136	3,325,808
Stevedoring services	2,381,839	2,263,353
Facility maintenance	2,038,864	1,875,640
General expenses	1,911,718	1,615,992
Insurance	1,838,496	1,656,386
Terminal services	1,645,358	1,629,300
Utilities	719,650	1,316,292
Bad debts	517,195	-
Total expenses	26,288,716	27,352,893
Loss from operations	(3,632,744)	(3,793,913)
Other income and (expense):		
Interest income	167,963	210,271
Other non-operating income	129,533	201,334
COLA/supplemental annuities	(1,141,172)	-
Write-off of abandoned asset	(946,134)	-
Other expense	(32,097)	(79,325)
Estimated typhoon loss	(317,373)	-
Estimated earthquake loss	(109,768)	-
Total other income and (expense), net	(2,249,048)	332,280
Loss before capital contributions	(5,881,792)	(3,461,633)
Capital contributions:		
Grants from the U.S. Government	454,737	-
Decrease in net assets	(5,427,055)	(3,461,633)
Net assets at beginning of year	49,054,064	52,515,697
Net assets at end of year	$ 43,627,009	$ 49,054,064

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
(A Public Corporation)

Statements of Cash Flows
Years Ended September 30, 2002 and 2001

	2002	2001 As restated
Cash flows from operating activities:		
Cash received from customers	$ 22,144,370	$ 24,368,725
Cash payments to suppliers for goods and services	(8,135,981)	(6,257,398)
Cash payments to employees for services and benefits	(15,279,452)	(17,187,895)
Net cash (used in) provided by operating activities	(1,271,063)	923,432
Cash flows from investing activities:		
Interest received	167,963	210,271
Sale of time certificate of deposit	1,200,000	(1,200,000)
Net cash provided by (used in) investing activities	1,367,963	(989,729)
Cash flows from capital and related financing activities:		
Purchase of property, plant and equipment	(718,331)	(307,067)
Principal payments of obligations under capital lease	-	(330,035)
Contributions from the U.S. Government	454,737	53,764
Net cash used in capital and related financing activities	(263,594)	(583,338)
Net decrease in cash	(166,694)	(649,635)
Cash at beginning of year	2,360,119	3,009,754
Cash at end of year	$ 2,193,425	$ 2,360,119
Reconciliation of operating earnings to net cash (used in) provided by operating activities:		
Loss from operations	$ (3,632,744)	$ (3,793,913)
Adjustments to reconcile loss from operations to net cash (used in) provided by operating activities:		
Depreciation	2,808,136	3,325,808
Other income and expense, net	97,436	147,570
Estimated loss due to earthquake	(317,373)	-
Estimated loss due to typhoon	(109,768)	-
Bad debt	517,195	-
(Increase) decrease in assets:		
Receivables	(641,135)	582,850
Replacement parts inventories	180,621	(41,173)
Increase (decrease) in liabilities:		
Accounts payable, trade	(459,826)	1,097,420
Accrued payroll and withholdings	(2,013)	20,467
Security deposits and other payables	579,415	(281,051)
Accrued annual leave	(177,643)	77,635
Unfunded pension costs	(113,364)	(212,181)
Net cash (used in) provided by investing activities	$ (1,271,063)	$ 923,432

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
(A Public Corporation)

Notes to Financial Statements
September 30, 2002 and 2001

(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.

For the year ended September 30, 2002, the Port adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (GASB 34)" as amended by GASB Statement No. 37 and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

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

Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

- 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 Port is subject to externally imposed stipulations that can be fulfilled by actions of the Port 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 Port does not have restricted net assets at September 30, 2002 and 2001.

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:

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 $101,756 and $272,960 of deposits insured through the Federal Deposit Insurance Corporation and approximately $2,091,669 and $2,736,794 of uninsured and uncollateralized deposits as of September 30, 2002 and 2001, respectively.

Revenue Recognition

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

(1) Organization and 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).

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.

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, 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 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 2001 financial statements have been reclassified to correspond with the 2002 financial statement presentation.

(2) Property, Plant and Equipment

A schedule of the Port's property, plant and equipment as of September 30, 2002 and 2001 is as follows:

	Beginning Balance October 1, 2001	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2002
Buildings	$ 62,374,255	$ 740,670	$ (1,051,261)	$ 62,063,664
Equipment	20,438,838	208,106	(847,043)	19,799,901
Land	3,563,000	-	-	3,563,000
	86,376,093	948,776	(1,898,304)	85,426,565
Less accumulated depreciation	(37,836,154)	(2,808,136)	875,438	(39,768,852)
Construction work in progress	196,169	586,957	(740,670)	42,456
Total	$ 48,736,108	$ (1,272,403)	$ (1,763,536)	$ 45,700,169

	Beginning Balance October 1, 2000	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2001
Buildings	$ 62,228,107	$ 146,148	$ -	$ 62,374,255
Equipment	21,552,555	-	(1,113,717)	20,438,838
Land	3,563,000	-	-	3,563,000
	87,343,662	146,148	(1,113,717)	86,376,093
Less accumulated depreciation	(35,608,822)	(3,325,808)	1,098,476	(37,836,154)
Construction work in progress	99,334	96,835	-	196,169
Total	$ 51,834,174	$ (3,082,825)	$ (15,241)	$ 48,736,108

(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 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. Subsequent to September 30, 2002, Port management received approximately $390,000 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. Estimates of the damage to the Port's property, plant and equipment, as a direct result of the typhoon, approximate $2,950,000. 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. The Port received approximately $183,000 from FEMA subsequent to year end.

(3) Earthquake and Typhoon Damages, Continued

Earthquake Damages:	
Estimated damages	$ 8,000,000
Estimated insurance recoveries	(7,500,000)
FEMA recoveries	(390,232)
Loss	109,768
Costs already incurred	(140,810)
Add: proceeds already received	500,000
Accrued earthquake costs	$ 468,958
Typhoon Chataan Damages:	
Estimated damages	$ 2,924,943
Estimated insurance recoveries	(2,424,943)
FEMA recoveries	(182,627)
Loss	317,373
Costs already incurred	(818,604)
Insurance recovery receivable	$ (501,231)

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 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 Defined Contribution Retirement System (DCRS). Until December 31, 1999, those employees who were members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the Defined Contribution Retirement System. Otherwise, they remain under the old plan.

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

As a result of the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2002, 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 employee and employer contributions were 9.5% and 19.675%, 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 Port as a separate sponsor, the accrued unfunded liability at September 30, 2002 and 2001 may be materially different than that recorded in the accompanying financial statements.

(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.

Employer contributions into the DCRS are based on the statutory contribution rate 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.

In 2002, the Government of Guam, as a whole, adopted the provisions of Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees*. The effect of this change, which was retroactively applied to 2001, is as follows:

	2001 As Originally Stated	2001 As Restated
Unfunded pension liability	$ 11,288,081	$ 1,888,181
Retained earnings at beginning of year	$ 43,115,797	$ 52,515,697

(5) Contingencies

Lawsuits and Claims

As of September 30, 2002, the Port 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 Port intends to vigorously defend itself against all legal actions.

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 2002, 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.

(6) Major Customers

The Port has five major shipping line customers which account for 75.9% and 77.6% of total operating revenues for the years ended September 30, 2002 and 2001, respectively. The Port has a high concentration of credit risk due to the limited number of entities comprising its customer base.

(7) Rental Operations

The Port, in cooperation with the Guam Economic Development Authority (GEDA), leases space to tenants under noncancelable operating leases, with options to renew, providing for future minimum rentals. The future minimum rental payments due from tenants under noncancelable operating leases in effect at September 30, 2002, are as follows:

Year Ending September 30,	Port Share	GEDA Share	Total
2003	$ 188,351	$ 266,552	$ 454,903
2004	188,310	266,494	454,804
2005	188,310	266,494	454,804
2006	179,131	253,504	432,635
2007	160,541	227,196	387,737
Thereafter	912,935	227,196	1,140,131
	$ 1,817,578	$ 1,507,436	$ 3,325,014

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 $3,390,062 and $3,939,204, respectively, for the years ended September 30, 2002 and 2001.

(8) Long-Term Receivable

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

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, 2002 and 2001, the Port has recorded receivables of $1,490,450 from GEDA for GEDA's share of the BRAC steering committee's expenses. 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. As a result, the Port has recorded an allowance for doubtful accounts for the entire receivable from GEDA as of September 30, 2002.

(8) Long-Term Receivable, Continued

Long-term accounts receivable at September 30, 2002 and 2001, are as follows:

	2002	2001
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	258,190
Receivable from GEDA for BRAC steering committee expenses	1,490,450	1,490,450
	3,748,640	3,748,640
Allowance for doubtful accounts	(3,748,640)	(3,231,445)
Net long-term accounts receivable	$ -	$ 517,195

(9) Adoption of New Accounting Principle

Effective October 1, 2001, the Port adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*. GASB No. 34 establishes a new financial reporting model that includes management's discussion and analysis, which is required supplementary information to the basic financial statements, and the presentation of net assets and changes in net assets in comparative financial statements. The provisions of GASB No. 34 were applied to all periods presented; accordingly, the balance sheet and statement of revenues, expenses and changes in net assets for 2001 have been restated.

GASB Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. While this statement did not affect amounts reported in the financial statements of the Port, certain note disclosures have been added or amended.

(10) Accrued Supplemental/COLA Annuities

As required by Public Law 26-35, as amended by 26-49, the Port Authority of Guam must pay to the Government of Guam Retirement Fund certain supplemental benefits paid to retirees for the year ended September 30, 2002. The supplemental benefits derive from an annual appropriation by the Guam Legislature and do not relate to covered plan benefits.

(11) Write-Off of Abandoned Asset

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

(12) Subsequent Events

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.

PORT AUTHORITY OF GUAM
(A Public Corporation)

Schedule 1
Schedule of Expenses
Years Ended September 30, 2002 and 2001

	2002	2001
Management and administration:		
Management:		
Salaries and wages - regular	$ 429,274	$ 1,423,989
Salaries and wages - overtime	-	411
Salaries and wages - other	85	54
Benefits - Government contribution	84,739	257,358
Fringe benefits	30,452	83,799
Miscellaneous	4,028	5,287
Total Management	548,578	1,770,898
Administration:		
Salaries and wages - regular	3,818,220	3,653,964
Salaries and wages - overtime	32,831	20,571
Salaries and wages - other	51,686	48,481
Benefits - Government contribution	830,417	647,944
Contractual	264,734	279,413
Fringe benefits	287,522	247,788
Travel and training	133,282	100,452
Repairs and maintenance	68,687	52,548
Office supplies	61,634	48,961
Miscellaneous	49,947	28,951
Total Administration	5,598,960	5,129,073
Total Management and Administration	$ 6,147,538	$ 6,899,971
Equipment Maintenance:		
Salaries and wages - regular	$ 1,356,526	$ 1,569,634
Salaries and wages - overtime	142,816	209,021
Salaries and wages - other	96,379	85,753
Parts, materials and supplies	506,599	844,235
Repairs and maintenance	654,355	552,257
Benefits - Government contribution	279,834	288,720
Fringe benefits	112,029	119,269
Contractual	154,559	111,478
Miscellaneous	13,512	-
Total Equipment Maintenance	$ 3,316,609	$ 3,780,367

See accompanying independent auditors' report.

PORT AUTHORITY OF GUAM
(A Public Corporation)

Schedule 1, Continued
Schedule of Expenses
Years Ended September 30, 2002 and 2001

	2002	2001
Transportation Services:		
Salaries and wages - regular	$ 1,994,687	$ 2,074,938
Salaries and wages - overtime	70,404	80,322
Salaries and wages - other	91,845	91,016
Benefits - Government contribution	455,441	427,241
Fringe benefits	175,291	162,183
Gas, oil and diesel	173,198	151,524
Miscellaneous	2,447	2,560
Total Transportation Services	$ 2,963,313	$ 2,989,784
Stevedoring Services:		
Salaries and wages - regular	$ 1,649,356	$ 1,613,122
Salaries and wages - overtime	142,722	104,677
Salaries and wages - other	91,725	77,030
Benefits - Government contribution	336,355	315,089
Fringe benefits	151,331	151,367
Miscellaneous	10,350	2,068
Total Stevedoring Services	$ 2,381,839	$ 2,263,353
Facility Maintenance:		
Salaries and wages - regular	$ 1,327,605	$ 1,341,963
Salaries and wages - overtime	21,609	23,703
Salaries and wages - other	14,806	7,207
Benefits - Government contribution	330,093	211,550
Parts, materials and supplies	158,552	172,556
Fringe benefits	116,866	111,352
Miscellaneous	69,333	7,309
Total Facilities Maintenance	$ 2,038,864	$ 1,875,640
Terminal Services:		
Salaries and wages - regular	$ 1,210,766	$ 1,237,697
Salaries and wages - overtime	60,626	39,454
Salaries and wages - other	22,022	15,064
Benefits - Government contribution	262,328	244,993
Fringe benefits	83,766	87,092
Miscellaneous	5,850	5,000
Total Terminal Services	$ 1,645,358	$ 1,629,300

See accompanying independent auditors' report.

PORT AUTHORITY OF GUAM
(A Public Corporation)

Schedule 1, Continued
Schedule of Expenses
Years Ended September 30, 2002 and 2001

		2002		2001
General Expenses:				
Legal counsel	$	776,478	$	532,081
Shell manager's fee		209,283		320,783
GEDA land lease fee		200,000		200,000
Inventory loss		174,250		-
Miscellaneous		157,813		90,372
Claims and damages		111,544		-
Workmen's compensation injury allowance		93,968		201,310
Tariff study		65,600		85,451
Repair and maintenance		38,356		41,250
Agency fee		31,277		33,203
Port incentive award		18,591		29,448
Professional services		15,340		7,353
Audit and consulting fees		14,000		26,000
Management discount		5,218		23,560
Advertising		-		25,181
Total General Expenses	$	1,911,718	$	1,615,992
Employees at end of year		398		405

See accompanying independent auditors' report.