

PORT AUTHORITY OF GUAM
(A Public Corporation)

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 1999 AND 1998



INDEPENDENT AUDITORS' REPORT

Board of Directors
Port Authority of Guam:

We have audited the accompanying balance sheet of the Port Authority of Guam ("the Port"), a component unit of the Government of Guam, as of September 30, 1999, and the related statements of operations and retained earnings and cash flows for the year 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 audit. The financial statements of the Port for the year ended September 30, 1998, before the restatements described in note 9, were audited by other auditors whose report, dated March 25, 1999, expressed an unqualified opinion on those statements.

Except as discussed in the following paragraphs, we conducted our audit 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 audit provides a reasonable basis for our opinion.

We were unable to obtain information to support the carrying value of inventories at September 30, 1999. As a result, we are unable to form an opinion on replacement parts inventories, carried at \$401,771 in the accompanying 1999 financial statements.

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

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

We also reviewed the adjustments described in note 9 that were applied to restate the 1998 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2001, on our consideration of the Port Authority of Guam's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP".

March 26, 2001

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Balance Sheets
September 30, 1999 and 1998

<u>ASSETS</u>	<u>1999</u>	<u>1998</u> As restated (note 9)
Current assets:		
Cash	\$ 6,085,522	\$ 7,375,435
Accounts receivable, net of allowance for doubtful accounts of \$2,003,009 in 1999 and \$2,318,000 in 1998 (note 11)	<u>2,680,659</u>	<u>8,921,655</u>
Total current assets	8,766,181	16,297,090
Replacement parts inventories, net of allowance for obsolescence of \$170,449 in 1999	401,771	773,486
Property, plant and equipment, net (note 2)	55,910,944	55,939,739
Long-term accounts receivable, net of an allowance of \$973,255 in 1999 (note 8)	<u>2,000,000</u>	<u>1,800,000</u>
	<u>\$ 67,078,896</u>	<u>\$ 74,810,315</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Obligations under capital leases, current portion (note 4)	\$ 347,812	\$ 359,168
Accounts payable, trade	885,162	3,491,298
Security deposits and other payables	461,284	592,922
Accrued payroll and withholdings	719,102	698,443
Accrued annual leave	<u>812,656</u>	<u>720,667</u>
Total current liabilities	3,226,016	5,862,498
Accrued annual leave, less current portion	812,657	720,668
Obligations under capital leases, net of current portion (note 4)	102,030	331,123
Unfunded pension costs (note 3)	<u>11,754,306</u>	<u>12,985,376</u>
Total liabilities	<u>15,895,009</u>	<u>19,899,665</u>
Contributions and retained earnings:		
Contributions:		
Rehabilitation act funds	13,884,126	13,884,126
Government of Guam General Fund	13,880,807	13,880,807
U.S. Government	8,101,552	8,101,552
Port Authority - incentive awards	7,000	7,000
Retained earnings	<u>15,310,402</u>	<u>19,037,165</u>
Total contributions and retained earnings	<u>51,183,887</u>	<u>54,910,650</u>
Commitments and contingencies (notes 4, 5, and 7)	<u>\$ 67,078,896</u>	<u>\$ 74,810,315</u>

See accompanying notes to financial statements.

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Statements of Operations and Retained Earnings
Years Ended September 30, 1999 and 1998

	1999	1998 As restated (note 9)
Operating revenues (note 6):		
Cargo throughput charges	\$ 16,673,495	\$ 18,481,903
Wharfage charges	3,710,305	4,220,390
Equipment and space rental	3,127,631	3,988,550
Special services	376,996	732,139
	<u>23,888,427</u>	<u>27,422,982</u>
Total operating revenues		
Expenses:		
Management and administration	6,044,119	5,595,643
Equipment maintenance	3,908,533	4,394,127
Transportation services	3,258,588	3,484,025
Depreciation	3,194,449	3,025,771
Stevedoring services	2,468,742	3,000,376
General expenses (note 8)	2,243,558	5,553,608
Facility maintenance	2,138,623	1,692,452
Terminal services	1,793,666	2,138,287
Insurance	1,449,266	2,093,401
Utilities	1,095,280	961,012
Provision for doubtful accounts	-	677,309
	<u>27,594,824</u>	<u>32,616,011</u>
Total expenses		
Loss from operations	<u>(3,706,397)</u>	<u>(5,193,029)</u>
Other income and (expense):		
Interest income	296,145	613,159
Interest expense	(62,293)	(120,062)
Other non-operating income (note 8)	969,318	8,782,202
Other expense (note 10)	(1,223,536)	(1,412,698)
	<u>(20,366)</u>	<u>7,862,601</u>
Total other income and (expense), net		
Net (loss) earnings	(3,726,763)	2,669,572
Retained earnings at beginning of year	19,037,165	16,367,593
Retained earnings at end of year	<u>\$ 15,310,402</u>	<u>\$ 19,037,165</u>

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 1999 and 1998

	1999	1998 As restated (note 9)
Cash flows from operating activities:		
Loss from operations	\$ (3,706,397)	\$ (5,193,029)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	3,194,449	3,025,771
Bad debts	-	677,309
Loss on surveyed and trade-in property	-	124,305
Other income	969,318	8,782,202
Allowance for obsolescence	170,449	-
(Increase) decrease in assets:		
Receivables	6,040,996	(7,473,694)
Prepaid expenses	-	33,333
Replacement parts inventories	201,266	38,241
Increase (decrease) in liabilities:		
Accounts payable and security deposits	(2,737,774)	2,088,373
Accrued payroll and withholdings	20,659	(60,904)
Accrued annual leave	183,978	68,677
Unfunded pension costs	(1,231,070)	185,678
Net cash provided by operating activities	<u>3,105,874</u>	<u>2,296,262</u>
Cash flows from investing activities:		
Interest received	<u>296,145</u>	<u>613,159</u>
Net cash provided by investing activities	<u>296,145</u>	<u>613,159</u>
Cash flows from noncapital financing activities:		
Transfers out	<u>(1,223,536)</u>	<u>(1,412,698)</u>
Net cash used in noncapital financing activities	<u>(1,223,536)</u>	<u>(1,412,698)</u>
Cash flows from capital and related financing activities:		
Purchase of property, plant and equipment	(3,165,654)	(9,953,817)
Principal payments of obligations under capital lease	(240,449)	(347,055)
Interest paid	<u>(62,293)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(3,468,396)</u>	<u>(10,300,872)</u>
Net decrease in cash	(1,289,913)	(8,804,149)
Cash at beginning of year	<u>7,375,435</u>	<u>16,179,584</u>
Cash at end of year	<u>\$ 6,085,522</u>	<u>\$ 7,375,435</u>

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 1999 and 1998

(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 is located on thirty acres of reclaimed land on Cabras Island in Piti, Guam. In October 1979, title to this land was transferred from the Government of Guam to the Port and 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.

Summary of Significant Accounting Policies

Basis of Accounting

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

Cash

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

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

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

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

Category 3 - Uncollateralized.

The Port has approximately \$200,000 and \$701,872 of deposits insured through the FDIC and approximately \$5,885,521 and \$8,062,746 of uninsured and uncollateralized deposits as of September 30, 1999 and 1998, respectively.

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

Revenue Recognition

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

Property, Plant and Equipment

Land is recorded at its appraised value on the date of transfer from the Government of Guam. Plant and equipment are stated at cost, which includes interest during the construction period. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets.

Replacement Parts Inventories

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

Annual Leave

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

Risk Management

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

Estimates

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

Reclassifications

Certain account balances in the 1998 financial statements have been reclassified to correspond with the 1999 financial statement presentation.

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(2) Property, Plant and Equipment

A schedule of the Port's investment in property, plant and equipment as of September 30, 1999 and 1998 is as follows:

	Estimated Useful Lives	<u>1999</u>	<u>1998</u>
Buildings and structures	40 years	\$ 62,228,167	\$ 62,316,887
Equipment	5-15 years	<u>21,562,023</u>	<u>18,604,656</u>
		83,790,190	80,921,543
Less: accumulated depreciation		<u>32,027,923</u>	<u>29,130,481</u>
		51,762,267	51,791,062
Construction-in-progress		585,677	585,677
Land		<u>3,563,000</u>	<u>3,563,000</u>
		\$ <u>55,910,944</u>	\$ <u>55,939,739</u>

(3) Employees Retirement Plan

Employees of the Port hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the new Defined Contribution Retirement System (DCRS). Until 1998, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, have 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, 1998, it has been determined that for the year ended September 30, 1999, a minimum combined employer and employee contribution rate of 25.87% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the year ended September 30, 1999. The effect of the Port's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 16.37% to an effective rate of 9.56% for the year ended September 30, 1999. In recognition of the above, at September 30, 1999, an accrual reduction of 9.04% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 9.56% and the employer's statutory rate of 18.6%.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 5.5% per annum. The most recent actuarial valuation performed as of September 30, 1998, 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, 1999 and 1998 may be materially different than that recorded in the accompanying financial statements.

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September 30, 1999 and 1998

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

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members who have completed five years of service, but have not attained the age of 55, are eligible only for the amount of member contributions plus any earnings thereon.

The cost to the Port for retirement contributions for the years ended September 30, 1999 and 1998 amounted to \$2,268,303 and \$2,694,620, respectively.

(4) Lease Commitment

The Port leases a Hitachi crane and other equipment under capital leases. Future minimum lease payments due after September 30, 1999 are as follows:

2000	\$ 395,983
2001	32,220
2002	32,220
2003	32,220
2004	<u>5,370</u>
Total minimum payments	498,013
Less amount representing interest	<u>(48,171)</u>
Total obligation under capital lease	449,842
Current portion of obligation under capital lease	<u>(347,812)</u>
Obligation under capital lease	\$ <u>102,030</u>

(5) Contingencies

Government of Guam General Fund

The Guam Legislature has enacted legislation which requires certain autonomous proprietary funds, including the Port, to transfer certain amounts to the Government of Guam general fund on an annual basis. The Governor of Guam and the board of directors, for the years ended September 30, 1987 through 1993, and 1995 through 1999, have not determined the Port's allocated portions of these transfers. Accordingly, no liability has been recorded for this contingency as of September 30, 1999.

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September 30, 1999 and 1998

(5) Contingencies, Continued

Lawsuits/Claims

As of September 30, 1999, the Port has been named as defendant in lawsuits, including a wrongful death suit in which two other Government of Guam agencies have been sued for joint and several liability, and a claim aggregating \$4,445,823 in potential awards. No provision has been recorded in the accompanying financial statements for these contingencies. The Port intends to vigorously defend itself against these actions.

Medicare

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

Federal Program Compliance

In 1998, the Port expended funds under a United States federal assistance program. This program is subject to financial and compliance audits to ascertain whether federal laws and guidelines have been followed. Currently, the required compliance audit has not been completed for this program. The effect, if any, of this noncompliance issue on the accompanying financial statements has not been determined.

(6) Major Customers

The Port has six major shipping line customers which account for 93% and 82% of total revenues, excluding interest and other non-operating income, for the years ended September 30, 1999 and 1998, respectively. The Port has a high concentration of credit risk due to the limited number of customers 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, 1999, are as follows:

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Notes to Financial Statements
September 30, 1999 and 1998

(7) Rental Operations, Continued

<u>Year Ending</u> <u>September 30,</u>	<u>Port Share</u>	<u>GEDA Share</u>	<u>Total</u>
2000	\$ 367,971	\$ 470,139	\$ 838,110
2001	230,131	294,027	524,158
2002	159,280	203,504	362,784
2003	159,245	203,461	362,707
2004	159,203	203,406	362,608
Thereafter	<u>341,223</u>	<u>435,965</u>	<u>777,188</u>
	\$ <u>1,417,053</u>	\$ <u>1,810,502</u>	\$ <u>3,227,555</u>

The Port also leases equipment and space to tenants on a month to month basis. Total equipment and lease space revenue from tenants for monthly rentals are \$3,127,631 and \$3,988,550, respectively, for the years ended September 30, 1999 and 1998.

(8) Typhoon Paka Destruction

On December 16 and 17, 1997, the island of Guam was devastated by Typhoon Paka. The Port sustained damage to its facilities and expended \$2,517,193 in related costs of restoration and cleanup. These costs have been recorded as general expenses in the accompanying financial statements for the year ended September 30, 1998. Based on its claim, the Port has received a settlement of \$7,600,000 from its insurance carrier for typhoon damages. Of this amount, the Port received \$4,000,000 during 1998. The balance of \$3,100,000 after the deductible of \$500,000 was received during 1999.

In addition, as of September 30, 1998, the Port has recorded receivables totalling \$1,333,937 from an insurance company and the Federal Emergency Management Agency (FEMA) for builders' all risk and expense reimbursement as a result of Typhoon Paka. These sums were paid to the Port during 1999. All of the insurance claims above have been shown as other nonoperating income in the statement of earnings and retained earnings for the year ended September 30, 1998.

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. Upon reimbursement from Federal and other sources, the Government of Guam is to reimburse the Port the entire amount transferred. Accordingly, a long-term receivable of \$2,000,000 and \$1,800,000, respectively, due from the Government of Guam has been recorded as of September 30, 1999 and 1998.

(9) Restatements – 1998 Financial Statements

During the year ended September 30, 1999, the Port discovered it had overestimated unfunded pension costs during the years ended September 30, 1995, 1996, 1997 and 1998. Also during 1999, GEDA enforced payment of a lease agreement for which the Port had not previously accrued. The 1998 financial statements have been restated to correct these errors. The effects of the restatements are as follows:

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Notes to Financial Statements
September 30, 1999 and 1998

(9) Restatements – 1998 Financial Statements, Continued

	1998 As Previously <u>Reported</u>	1998 <u>As Restated</u>	Increase (Decrease)
Accounts payable	\$ 3,834,220	\$ 4,084,220	\$ 250,000
Unfunded pension costs	22,140,869	12,985,376	(9,155,493)
Operating expenses	33,357,505	32,616,011	(741,494)
Retained earnings at beginning of year	8,203,594	16,367,593	8,163,999

(10) Other Expense

During the years ended September 30, 1999 and 1998, in accordance with Public Law 24-59, the Port transferred funds totaling \$1,223,536 and \$1,212,698, respectively, to the Government of Guam Retirement Fund for supplemental annuity benefits of Port employees who retired prior to October 1, 1995. The sum of \$4,238 per retiree is due in two equal installments on or before December 31 and March 31 of each succeeding year. Public Law 24-59 requires this transfer only for fiscal years 1998 and 1999.

(11) Accounts Receivable

Accounts receivable at September 30, 1999 and 1998, are as follows:

	<u>1999</u>	<u>1998</u>
Trade	\$ 4,559,961	\$ 6,468,668
Less allowance for doubtful receivables	<u>(2,003,009)</u>	<u>(2,318,000)</u>
	2,556,952	4,150,668
Insurance	-	3,100,000
FEMA	-	1,405,474
Others	<u>123,707</u>	<u>265,513</u>
	\$ <u>2,680,659</u>	\$ <u>8,921,655</u>