



Port Authority of Guam FY 2014 Financial Highlights

February 22, 2015

Port Authority Achieves Low-Risk Auditee Status

The Port Authority of Guam (Port) is to be commended for achieving low-risk auditee status as they are the only other government agency to attain this status besides the Guam Community College. No findings pertaining to federal funds were identified in fiscal year (FY) 2014 and from the prior year. Accordingly, the Port qualified as a low-risk auditee this fiscal year. The Port received an unmodified (clean) opinion from independent auditors Deloitte & Touche, LLP for its financial statements and compliance report over major federal programs.

For the past twelve years, the Port has continued to close out its fiscal year with an increase in net position (net income). FY 2014 ended with a significant increase in net position of \$3.3 million (M) in comparison to \$92 thousand (K) from the prior year. However, the Port continues to have major write-offs and loss from disposal of property, plant, and equipment of \$4.8M in relation to the completion of Phase II of the Guam Commercial Port Improvement Program, surveying of equipment, and downscaling of the original plan. Prior year write-off disposals were \$3.3M.

Revenues Increased by \$2.8M

The Port's operating revenues increased by 7% or \$2.8M from \$42M in FY 2013 to \$44.9M in FY 2014. The Authority has three major shipping agency customers: Matson Navigation, Consolidated Transportation Services Inc., and Marianas Steamship Agency that collectively account for over 77% of total operating revenues.

An increase of \$1.6M in operating revenues were derived from the new crane surcharge fees of \$105 and \$125 per container, which took effect in January and February 2013, respectively. In addition, the Public Utilities Commission approved a rate increase of 5.65% effective in March 2014. In a five year period, the number of containers handled continued to decline from 98K in FY 2010 to 93K in FY 2012 and down to the lowest point of 86K in FY 2014.

Operating Expenses Decreased by \$2.8M

The Port's operating expenses decreased by 7% or \$2.8M from \$40.8M in FY 2013 to \$38M in FY 2014. This was primarily due to equipment maintenance costs which decreased by \$2.1M from \$7.7M in FY 2013 to \$5.6M in FY 2014. Repairs and maintenance declined by 27% from the previous year because of decreases in repairs and maintenance of Gantry 3.

Update on the Port Modernization Program and 2013 Master Plan Update

The Port Modernization Program spans a 30 year planning horizon and is valued at a little more than \$260M, consisting of Phases I-A and I-B, which focuses on critical maintenance

and repair of waterfront activities and improvements needed to handle near-term cargo of the military build-up and projected population increases over the next five years. The Authority completed Phase I-A of the Port Modernization Program, which includes reconfiguration and expansion of the break-bulk laydown area, renovation of the CFS Building, creation of a new gate complex, and upgrade of utilities and security features.

The Authority segregated the construction funded by the \$50M U.S. Department of Defense appropriation into three phases. As of September 2014, Phase II of the construction is completed; however, these amounts have not been recorded in the Port's books as the Maritime Administration (MARAD) administers the construction and has not provided the costs incurred. On March 2014, Public Law 32-155 was signed to approve and adopt the Capital Improvement Projects Schedule and Land Use Designation in the Port's 2013 Master Plan Update.

Bank of Guam Loan

In April 2014, the Port obtained a \$10M loan from the Bank of Guam for the Service Life Extension Project. The loan, payable in 10 years, was acquired for the repair of wharfs, funding the cost of multiple top lifter equipment, and acquisition of software for the purpose of upgrading the Port's financial management system.

Government Accounting Statement – Pension Liability

The Government Accounting Standards Board (GASB) has issued several statements to be implemented in the next few years. GASB Statement No. 68, related to the *Accounting and Financial Reporting for Pensions*, will result in significant change as the Port will be required to report its pro rata share of \$45.3M of GovGuam's pension liability. This long-term liability of \$45.3M will be reflected in the Port's financial statements in FY 2015. Implementation of this statement will have a material effect on the financial statements of the Authority and will require a restatement disclosure.

Report on Internal Control and Compliance

The Port received an unmodified (clean) opinion on its compliance report over major federal programs and no significant findings were identified. Similarly, no material weaknesses were identified over financial reporting. With three years of no findings over major federal programs, we congratulate the Port as they qualified as a low-risk auditee this fiscal year.

Management Letter

In a separate management letter, eight findings were identified involving: (1) the Port Modernization Plan; (2) sales invoices; (3) payroll; (4) clarification and finalization of agreements; (5) interest capitalization for qualifying assets; (6) fixed asset inventory; (7) accuracy of weight for bulk/breakbulk cargo; and (8) written accounting policies.

Summary of Uncorrected Misstatements

There were two uncorrected misstatements identified with a net effect of \$292K in FY 2014. Management agreed that these misstatements will not be recorded as they were results of errors, were immaterial, and were not the result of fraud or illegal acts.

For a more detailed commentary on the Port's operations, refer to the Management's Discussion and Analysis in the audit report. For more details, view the reports in their entirety at www.opaguam.org or www.portguam.com.