



## **Port Authority of Guam FY 2016 Financial Highlights**

### **February 20, 2017**

The Port Authority of Guam (Port) closed fiscal year (FY) 2016 with an increase in net position (net income) of \$7.1 million (M), a significant decrease from the prior year's net income of \$62M. Independent auditors Deloitte & Touche, LLP rendered an unmodified "clean" opinion for the Port's financial statements, but with an emphasis on the Port's decision to appeal the Superior Court of Guam's ruling to grant an arbitration award of \$14.1M to Guam YTK Corporation (YTK). No provision has been recorded for the litigation in the financial statements.

This is the Port's third consecutive year as a low-risk auditee. The Port also received an unmodified "clean" opinion on the reports on internal control and compliance over major federal programs. However, there was one finding pertaining to federal funds identified in FY 2016.

### **Pending Litigation**

The Port is engaged in litigation with YTK, a former tenant, involving a lease agreement dated December 2001. The lease agreement terms required the case to be submitted to arbitration. In April 2016, the Arbitrators issued their order to award approximately \$14.1M to YTK. In July 2016, the Port appealed the Arbitrators' ruling to the Superior Court. In December 2016, the Court denied the Port's Motion to Vacate the Arbitration Award and ruled in favor of YTK. The Port obtained directive from its Board of Directors in January 2017 to appeal the matter to the Guam Supreme Court.

### **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, and 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. The Port, through a memorandum of understanding with Maritime Administration (MARAD), completed Phase I-A, 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 Port segregated the construction funded by the \$50M U.S. Department of Defense appropriation into three phases. The third phase of the construction was completed as of September 2015 and the Port's books have already been updated to reflect the \$47.3M in capital assets while federal contributions related to the capital improvements decreased significantly to \$1.4M in FY 2016.

### **Governmental Accounting Statement - Pension Liability**

The implementation of GASB 68 and 71 related to accounting and financial reporting for pensions resulted in recognizing the Port's pro rata share of the Government of Guam's (GovGuam) net pension liability in FY 2016. Per the Government of Guam Retirement Fund, GovGuam's pension liability of \$1.2 billion (B) in FY 2015 increased to \$1.4B in FY 2016. The Port's pro rata share increased by \$4.7M, going from \$37.6M in FY 2015 to \$42.3M in FY 2016. The change in pension liability resulted in a net decrease in salaries, wages, and benefits expenses of \$707 thousand (K).

### **Revenues Increased by \$4.1M**

The Port's operating revenues increased by 8.5% or \$4.1M from \$48.4M in FY 2015 to \$52.5M in FY 2016. The \$4.1M increase was primarily due to the full implementation of the 7% Terminal Tariff rates, coupled with an increase in cargo volume. The Port experienced a 0.2M decrease in cargo revenue tons, going from 2.3M in FY 2015 to 2.1M in FY 2016, but saw an increase in containers handled, going from 91,000 in FY 2015 to 103,000 in FY 2016.

### **Operating Expenses Increased by \$6.8M**

The increase in operating revenues was offset by an 18.3% or \$6.8M increase in operating expenses from \$37.2M in FY 2015 to \$44M in FY 2016. The increase in operating expenses were primarily due to increases in management and administration (from \$7.1M to \$9.1M), depreciation (from \$4.8M to \$6.1M), and general expenses (from \$3.5M to \$4.8M).

### **Capital Assets**

The Port's investment in capital assets net of accumulated depreciation totaled \$122.9M as of September 2016, a \$2.1M decrease from \$125.1M in FY 2015. The investment in capital assets includes lands, buildings, improvement other than buildings, office and cargo handling equipment, inventory, and construction in progress. The decrease in capital assets was primarily due to the disposal of the Port's oldest crane, the Gantry 3, wherein the Port recognized a \$2M loss.

### **Report on Internal Control and Compliance**

The Port received an unmodified opinion on its compliance report over major federal programs although there was one finding, related to a Rural Development Loan Guarantee, in which the Port overlooked a requirement to submit quarterly unaudited financial statements to the U.S. Department of Agriculture (USDA) Rural Development. Recently, the Port sent the required statements to USDA and has updated their report requirement listing to ensure future compliance. No material weaknesses were identified over financial reporting. This is the Port's third year as a low-risk auditee and is to be commended for maintaining this status.

### **Management Letters**

The auditors issued a Management Letter that identified seven areas of concern, including the Port Modernization Plan, lack of reconciliation of sales invoices, lack of periodic assessments of allowance for doubtful accounts, management and lease agreements not finalized, lack of interest capitalization for qualifying assets, lack of written accounting policies or manual, and lack of reconciliation of the fixed assets register. Of the seven, three were repeated from the prior year and pertained to management and lease agreements, interest capitalization of qualified assets, and written accounting policies or manual. In addition, a separate Management Letter identified eight areas concerning the Port's information technology environment.

### **Summary of Adjustments and Uncorrected Misstatements**

The auditors proposed three audit adjustments along with three Port adjustments that resulted in a \$4.9M net increase to net position. In addition, there were five uncorrected adjustments that would have increased net position by \$310K.

For a more detailed commentary on the Port's operations, refer to the Management's Discussion and Analysis in the audit report. You may also view the reports in their entirety at [www.opaguam.org](http://www.opaguam.org) or [www.portguam.com](http://www.portguam.com).