



Port Authority of Guam FY 2015 Financial Highlights

February 3, 2016

The Port Authority of Guam (Port) closed fiscal year (FY) 2015 with an increase in net position (net income) of \$62M, a significant increase from the prior year's restated net income of \$4.6M. The \$62M is inclusive of \$51.6M in federal grants and a net pension recovery of \$5.3M due to the implementation of Government Auditing Standards Board (GASB) Statement No. 68 pertaining to the recording of Pension Liability. Had it not been for these two extraordinary items, the ending net income would have been \$5.1M.

This is the Port's second consecutive year as a low-risk auditee and still the only other government agency to attain this status besides the Guam Community College. No findings pertaining to federal funds were identified in FY 2015. The Port received an unmodified "clean" opinion from independent auditors Deloitte & Touche, LLP for its financial statements, with an emphasis on the Port's adoption of GASB 68 and 71, which resulted in the restatement of its FY 2014 financial statements. The auditors also rendered an unmodified opinion on the reports on internal control and compliance and Single Audit report on compliance over major federal programs.

Governmental Accounting Statement - Pension Liability

The implementation of GASB 68 related to *Accounting and Financial Reporting for Pensions* in FY 2015 resulted in the restatement of the Port's financial statements for FY 2014, recognizing the Port's pro rata share of the Government of Guam's (GovGuam) net pension liability. Per the Government of Guam Retirement Fund, GovGuam's pension liability of \$1.3 billion (B) in FY 2014 was reduced to \$1.2B in FY 2015. The Port's pro rata share decreased by \$6.8M, going from \$44.4M in FY 2014 to \$37.6M in FY 2015. The restatement and the change in pension liability reduced salaries, wages, and benefits expenses by \$1.2M and increased net income by the same amount in FY 2014. Similarly in FY 2015, salaries were also reduced by \$5.3M.

Update on the Port Modernization Plan and 2013 Master Plan Update

The Port Modernization Plan 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 Phase II focuses on expansion to address projected long-term population growth. 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 (DOD) appropriation into three phases. As of September 2015, the third phase of the construction was completed and capitalized with a total cost of \$54M, of which \$48.2M came from the DOD appropriation and \$5.8M was related to consultants' charges.

Revenues Increased by \$3.6M

The Port's operating revenues increased by 7.9% or \$3.6M from \$44.9M in FY 2014 to \$48.4M in FY 2015. The \$3.6M increase was primarily due to the full implementation of the 5.65% Terminal Tariff rates, as well as increased cargo volume. The Port experienced a 0.4M increase in cargo revenue tons, going from 1.9M in FY 2014 to 2.3M in FY 2015. The Port also saw an increase in containers handled, which went from a low of 86 thousand in FY 2014 to 91 thousand in FY 2015.

Federal contributions in FY 2015 increased by \$47.4M, from \$4.2M in FY 2014 to \$51.6M, which was primarily due to the Port Modernization Program. However, no funds under the Port Modernization Program was passed to the Port.

Operating Expenses Decreased by \$1.9M

The Port's operating expenses decreased by 4.9% or \$1.9M from \$39.1M in FY 2014 to \$37.2M in FY 2015. While the Cost of Living Allowance/supplemental annuities and general expenses collectively increased by \$1M, other operating expense categories decreased mainly due to nearly \$4M of pension recovery adjustments as a result of the GASB 68 implementation.

Capital Assets

The Port's investment in capital assets net of accumulated depreciation totaled \$125.1M as of September 2015, a \$53.5M increase from \$71.6M in FY 2014. The investment in capital assets includes lands, buildings, improvement other than buildings, office and cargo handling equipment, inventory, and construction in progress. The increase was primarily due to the construction completion of the third phase of the DOD-funded project.

Report on Internal Control and Compliance

The Port received an unmodified opinion on its compliance report over major federal programs and no findings were identified. Similarly, no material weaknesses were identified over financial reporting. This is the Port's second year as a low-risk auditee and is to be commended for this achievement.

Management Letters

The auditors issued a Management Letter that identified eight areas of concern, including the Port Modernization Plan, sales invoices, payroll, and management agreements. Of the eight, four were repeated from the prior year and pertained to the lack of management and lease agreements, lack of interest capitalization on qualified assets, inaccurate weight for bulk/breakbulk cargo, and no written accounting policy or manual. In addition, a separate Management Letter identified nine areas concerning the Port's information technology environment.

Summary of Adjustments and Uncorrected Misstatements

The auditors proposed eight journal entries that resulted in a net increase of \$3.1M to net position. In addition, there were three uncorrected adjustments that would have increased net position by \$229 thousand.

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 or www.portguam.com.