



Port Authority of Guam FY 2011 Financial Highlights

January 30, 2012

The Port Authority of Guam (Port) ended fiscal year (FY) 2011 with an increase in net assets of \$2.5 million (M) which was mainly attributed to capital and operating federal contributions of \$5.2M. Were it not for these federal contributions, the Port would have experienced a loss of \$1.9M. Although an overall increase in net assets was realized, the Port's earnings from operations were \$579 thousand (K) compared to operating earnings of \$2.2M in FY 2010. The Port received an unqualified (clean) opinion from independent auditors Ernst & Young LLP for FY 2011. The Port's compliance report cited four findings that were significant deficiencies over the areas of cash management and the Davis Bacon Act.

Revenues Decrease by \$90K

The Port's operating revenues decreased by less than 1% or \$90K from \$35.8M in FY 2010 to \$35.7M in FY 2011. This decline can be attributed to the decrease in break bulk cargos by almost 40%, non implementation of tariff increases, and a decrease in the number of containers handled at the Port. Of the revenue categories, equipment and space rental was the only category that increased by 1% or \$88K, due to an increase in leases from one of the Port's lessees. Horizon Lines, one of Guam's two major shippers also discontinued its service to the island in November 2011.

Operating Expenses Increase by \$1.6M

While revenues declined, expenses increased by \$1.5M or 5% from \$33.6M in FY 2010 to \$35.1M in FY 2011. The major increases were salaries and benefits and professional services. Salaries and benefits increased 14% or \$2.4M from \$17.6M to \$20M which can be attributed to the hiring of 17 employees. These employees were hired in anticipation of the impending military build-up. Professional services increased 114% from \$797K in FY 2010 to \$1.7M and was due to consulting services mainly for the Port Modernization Project. To date, the Port has spent a total of \$13.4M to one consultant, of which \$3.6M has been funded through local funds and \$9.8M through federal grants. The Port has capitalized \$11.6M in consulting services and expensed the remaining \$1.8M.

\$700K Recorded Liability to the Autonomous Agency Infrastructure Collection Fund

In March 2011, the Port received an invoice from the Government of Guam Department of Administration (DOA) for the annual assessment of \$875K per fiscal year from 1998 through 2011 totaling \$12.25M. This invoice was to recover funds per Public Law (P.L.) 24-14 that requires specific component units, including the Port, to transfer money to the Autonomous Agency Infrastructure Collection Fund every fiscal year. In response to this assessment, the Port requested DOA to further review historical financial information that

would show payments transferred by the Port and should have been applied to the balance of the DOA Invoice. With these previous payments along with funding government services with Port funds and operating at a loss for several of the years invoiced, the Port is of the position that they do not owe the entire \$12.25M. Instead, the Port believes that the amount owed since the implementation of P.L. 24-14 is \$700K which has been accrued as a payable to DOA as of September 30, 2011. The Port is currently the only autonomous entity to record this as a liability. As of the issuance date of this report, the Port had not made payment to DOA, pending the signing of a Memorandum of Agreement.

Updates on the Port Modernization Program and Performance Management Contract

The Port received a \$50M grant from the Department of Defense and has been awarded a \$54.5M loan from the United States Department of Agriculture (USDA) to fund Phase 1-A of the Port Modernization Program. No major improvements have been made in the Port's facilities since its construction in 1969 with the exception of the repair of wharf F-5 in 1999. As the U.S. and Japan governments have been facing budgeting issues, Guam (specifically the Port Authority) has yet to see the full effect of the island's military buildup. Projected cargo forecasts are no longer reliable and have caused the Port to reevaluate their approach and priorities in its modernization program by proposing more of a "balanced approach" that would accomplish affordable cargo handling capacity improvement, set the stage for modernization, and achieve limited sustainability improvements for both the uplands and waterfront structures. This revised implementation plan of the Port modernization has yet to be finalized.

The Port issued a Performance Management Contract (PMC) but was put on hold and is currently under litigation. The Port's management and new board of directors intend to reassess the PMC scope of work once the RFP is allowed to commence.

Report on Compliance and Internal Control and Management Letters

A clean opinion was given to the Port on its compliance and internal controls report; however there were four significant deficiencies. These findings covered the areas of cash management and the Davis Bacon Act. Independent auditors' recommendations included that management should establish specific procedures that would ensure timely disbursements of Federal funds and implement controls that would ensure progress payment requests received from the contractors are supported by certified payrolls.

In a separate management letter, recommendations were made to reestablish the oversight committee to oversee the modernization project, conduct a study on manpower requirements given the delay in the military buildup, and ensure proper procurement documentation.

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.guamopa.org or www.portguam.com.