



OFFICE OF THE PUBLIC AUDITOR

February 2, 2007

Port Authority of Guam FY 2006 Highlights

The Port Authority of Guam (Port) is the second government of Guam entity to issue its FY 2006 audited financial statements, just over four months after September 30, 2006, and a significant improvement in timeliness over prior years. The FY 2006 audit was conducted by Deloitte & Touché.

The Port closed FY 2006 operations with a \$1.5 million increase in net assets or net income. This is the fourth year the Port reported an increase in net assets; however, were it not for the \$3.2 million of earthquake and typhoon gain, the Port would have had a decrease in net assets or net loss of \$1.7 million. The earthquake and typhoon gain occurred because there was an over accrual of the costs of earthquake and typhoon repairs, which were originally \$8.3 million.

For the FY 2006, operating revenues decreased by \$1.2 million or 5% from \$26.5 million to \$25.3 million. The decrease was due to the decline of loaded containers and the addition of chassis equipments by the shipping companies to their current inventory. Specifically, revenue tons of cargo decreased from 2 million to 1.9 million tons, which illustrated that there were less loaded containers handled in FY 2006. While revenue declined, operating expenses continues to increase by \$1.5 million from \$25.8 million to \$27.3 million. As a result, the Port had an operating loss of \$2 million in FY 2006 compared to the \$668 thousand operating gain in FY 2005.

As several categories of operating expenses increased, the largest increases included equipment maintenance, utilities, and insurance. Costs for equipment maintenance were for parts, materials and supplies, and repairs and maintenance that increased by \$1.2 million from \$1.8 million to \$3.0 million. The increase was largely due to the repairs and operational supplies for the Port's gantries, tractors, forklifts, and lifters. Utilities increased by \$258 thousand or 25% from \$1.0 million to \$1.3 million due to the rate increases by the Guam Power Authority and Guam Waterworks Authority. Specifically, power bills averaged \$59 thousand per month in FY 2005, compared to \$90 thousand per month in FY 2006. Insurance also increased by 9% from \$2.5 million to \$2.7 million due to rates increase.

Of the \$27.3 million of total operating expenses, \$16.5 million was for payroll and related benefits compared to the \$15.9 million, an increase of 4% or \$638 thousand. This increase was attributable to the hiring of 15 employees, implementation of P.L. 27-106 restoring salary increments, overtime, and an increase in unfunded pension costs.

In FY 2006, the Port spent \$102 thousand for its privatization efforts for a total of \$267 thousand, a nominal amount compared to the Guam Telephone Authority's \$12.5 million of privatization costs. Since the third quarter of FY 2006, there has been no movement in the

Port's privatization as it is under litigation. Further, the Port did not incur legal costs during FY 2006 as it has been utilizing the Office of the Attorney General.

The Port reported an increase of cash from \$15.5 million in FY 2005 to \$16.3 million in FY 2006, of which approximately \$14 million is in short-term investments under 90-days. Due to these short-term investments, interest income almost doubled from \$444 thousand to \$801 thousand. COLA supplemental annuities were \$1.1 million.

Beginning FY 2007, the Port will commence an aggressive capital investment program to address the aging of its equipment, improve services, and prepare for the expected military buildup in Guam. Capital expenses include two gantry cranes, mobile harbor crane, forklifts, and tractors.

The Port's report on compliance and internal controls noted two findings, of which one was considered to be a material weakness that resulted in a questioned cost of \$60 thousand because the amount represented the entire grant. This finding pertained to a Homeland Security Grant availability period wherein the Port charged \$60 thousand almost six months after the grant had expired. The second finding related to the Port's inability to identify federally funded properties.

In a separate letter to management, two findings were identified. The first finding pertained to an overstatement of \$106 thousand in fixed assets, which were either missing or out of service. The second finding reported \$79 thousand of federal grant revenue erroneously recorded in FY 2006 instead of FY 2005.

For further discussion, see the Management's Discussion and Analysis.