



Port Authority of Guam FY 2017 Financial Highlights

April 23, 2018

The Port Authority of Guam (Port) closed fiscal year (FY) 2017 with an increase in net position (net income) of \$4.1 million (M), a \$1.7M decrease from the prior year's restated net income of \$5.8M. Independent auditors, Deloitte & Touche, LLP, rendered an unmodified "clean" opinion on Port's financial statements. However, emphasis was made regarding: (a) the Port's appeal in the Supreme Court of Guam on the ruling to grant an arbitration award of \$14.1M to Guam YTK Corporation (YTK), in which no provision has been recorded for the litigation in the financial statements; and (b) the restatement of its FY 2016 financial statements to reflect the adoption of Governmental Accounting Statements Board (GASB) No. 73. The restatement resulted in a \$13.7M reduction of Port's net position as of FY 2016, going from \$100.7M to \$87M.

Report on Internal Control and Compliance

After three consecutive years of being a "low-risk" auditee, the Port lost this designation in FY 2017 due to a late report submission to the Federal Clearing House. Nevertheless, the independent auditors rendered an unmodified "clean" opinion on Port's reports on internal control and compliance over major federal programs. Meanwhile, there was a noncompliance over financial reporting on local procurement pertaining to incomplete documentation on procurement award of \$2M to the lowest bidder whose bid was not responsive.

Pending Litigation

The Port is involved in litigation with YTK, a former tenant, related to 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. In June 2017, the Port filed a Notice of Appeal in the Supreme Court of Guam appealing the Superior Court's Decision and Order of Judgment. Additionally, the Port filed a Motion to Dismiss in the Supreme Court in January 2018. The matter is pending briefing and oral arguments in the Supreme Court.

Post-Employment Benefits

In FY 2017, the Port implemented the GASB No. 73, which aligns the reporting of pensions, ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments. This implementation had a material effect on the Port, resulting in the restatement of its FY 2016 financial statements. As of FY 2017, Port's net pension liability of \$56.8M includes its proportionate share in Government of Guam's pension, ad hoc COLA and supplemental annuity payments. Pension expense amounted to \$6.1M in FY 2017 and \$5.7M in FY 2016.

Another GASB (No. 75, Post-Employment Benefits Other than Pensions) is effective and will be recorded in the Port's FY 2018 financial statements. This pertains to post-employment medical, dental, and life insurance benefits to retirees, spouses, children and survivors. Upon implementation, it is anticipated that Port will record additional \$38.9M liability as of FY 2017 arising from other post-employment benefits.

Decreased Revenues

As approved by the Public Utilities Commission, the Port implemented the 5-Year Tariff increase in FY 2017. The first year tariff rate was a 7% increase in terminal tariff rates starting June 1, 2017. Despite this increase in rate, Port's total operating revenues decreased by \$1.3M or 2.5%, from \$52.2M in FY 2016 to \$50.9M in FY 2017. The decrease was primarily due to (a) 7% decrease in containers handled, from 103 thousand (K) in FY 2016 to 96K in FY 2017, and (b) 12% decrease in breakbulk handled, from 233K tons in FY 2016 to 204K tons in FY 2017. Total federal contributions in FY 2017 also decreased by \$1.1M or 47%, from \$2.2M in FY 2016 to \$1.1M in FY 2017, due to completion of federal projects.

Increased Operating Expenses

If not for the GASB 73 amounts, which were noncash expenses, the Port's operating expenses would have only increased by \$825K or 2.1%, from \$39.6M in FY 2016 to \$40.4M in FY 2017. Salaries and wages, excluding pension, COLA and supplemental annuities, increased by \$1.7M due to salary increments and three additional employees. The \$1.7M increase was offset by the \$796K decrease in professional fees pertaining to a performance maintenance contract. The prior contract was on a weekly basis, while the current contract is on call basis. There were also reductions in repairs and maintenance by \$397K and manager's fee by \$169K.

Increased Receivables

The Port has two major shipping agency customers that approximately accounted for 60% of its revenues. Net receivables amounted to \$7.8M as of FY 2017 and \$5.1M as of FY 2016. An increase of \$2.7M or 53% was due to increased tariff rates and the timing of collection. As of January 31, 2018, \$6.7M or 86% of outstanding receivables as of FY 2017 has been collected.

Property, Plant, and Equipment and Future Bond Financing

As of FY 2017, the Port's property, plant, and equipment amounted to \$124.3M, which included land, buildings, improvements other than buildings, office and cargo handling equipment, inventory, and construction in progress (CIP). In FY 2017, \$14.5M in completed projects were transferred from CIP to the building and wharf account (\$9.8M), and to the computer account for terminal operating system (\$4.7M). In addition, the Port acquired four top lifters and 16 tractors totaling \$3.6M in FY 2017. In 2018, the Port plans to issue revenue bonds to finance various capital improvements, such as the rehabilitation of H-Wharf and access road, replacement of administration building, and waterline relocation.

Management Letters

The independent auditors issued a Management Letter that identified six areas of concern: (1) final turnover of documents pertaining to the Port Modernization Plan, (2) lack of reconciliation of sales invoices, (3) lease agreements not finalized, (4) non-capitalization of interest for qualifying assets, (5) lack of reconciliation of fixed assets, and (6) untimely update of employee listing. In addition, a separate Management Letter on the Port's internal control on Information Technology identified four deficiencies.

Summary of Adjustments and Uncorrected Misstatements

In FY 2017, the auditors proposed two adjustments related to pension that resulted in a \$15.7M net decrease to net position. In addition, there were six uncorrected misstatements, one of which pertained also to pension that would have decreased the net position by \$417K.

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.