Port Authority of Guam
FY 2009 Financial Highlights

February 8, 2010

Despite the worldwide economic recession, which adversely affected Guam, the Port Authority of Guam (Port) closed fiscal year (FY) 2009 with an increase in net assets of 4% or $2 million (M). Although cargo throughput charges and wharfage charges decreased, revenues were offset by the increase in equipment and space rental income. In addition, management's continued focus on efficiency decreased the Port's operating expense by 1% or $378,000 (K). The Port is the third government entity to issue its financial audit and has received an unqualified (clean) opinion from independent auditors Ernst & Young LLP. The Port's compliance report cited one finding, which was a material weakness. Ernst & Young also issued a separate management letter identifying 10 deficiencies.

Revenues Decreased Slightly
Total operating revenues decreased slightly by .3% or $83K, from $30.2M in FY 2008 to $30.1M in FY 2009. While cargo throughput charges and wharfage charges decreased by $636K from $25.8M in FY 2008 to $25.2M in FY 2009, equipment and space rental income increased by 23% or $898K from $3.9M to $4.8M. Port management attributed this increase to the renewal of lease contracts with escalation rates.

In July 2009, Public Law (P.L.) 30-52 placed the Port under the regulatory oversight supervision of the Public Utilities Commission (PUC). The Port awaits PUC's approval of its interim tariff rates of 3.4% on cargo handling charges and other rate increases on other non-cargo charges.

Decrease in Operating Expenses
The Port's total operating expenses decreased slightly by 1.3% or $378K from $28.5M in FY 2008 to $28.1M in FY 2009. Nearly every category of expenses declined with notable decreases in equipment maintenance and overtime. Equipment maintenance expense decreased by 18% or $1M from $5.7M in FY 2008 to $4.7M in FY 2009. Overtime decreased by 53% or $446K going from $839K in FY 2008 to $393K in FY 2009. In July 2009, P.L. 30-43 adopted the Port's performance based compensation and benefit adjustments, which took effect in October 2009. The Port's loss from disposal of property, plant, and equipment increased by 860% or $1.5M from $171K in FY 2008 to $1.6M in FY 2009. Of the $1.6M loss, $1.5M is due to the deep draft wharf completed study for the military which will not be implemented. As of September 30, 2009, the Port had 334 employees.

Elimination of the Unfunded Pension Liability and Prior Period Adjustment
In December 2009, the Department of Administration (DOA) redesignated the Defined Benefit Plan from a single-employer plan to a cost-sharing multiple-employer plan pursuant to the Government Accounting Standards Board Statement 27. DOA expressed this position as the primary government of the government of Guam. The Port, as a component unit, followed DOA's rational for the redesignation. As a multiple-employer retirement plan, the unfunded

liability is no longer recorded as a liability, but instead is only footnoted in the financial statements. This resulted in the elimination of $7M unfunded liability. From this prior period adjustment, the Port's FY 2008 beginning net assets increased by $7M from $50.6M to $57.6M.

Port Master Plan

In September 2009, P.L. 30-57 approved the implementation of Phase I of the Port Master Plan, which calls for more than $200M in facility upgrades. The plan's approval will be instrumental in the Port's applications for Federal funding. Currently, the Port awaits approval for $49.7M from the U.S. Department of Transportation's Transportation Investment Generating Economic Recovery grant, and $50M in loans from the United States Department of Agriculture.

American Recovery and Reinvestment Act (ARRA) Grant

In September 2009, the Port was awarded $910K of ARRA funds through the Port security grant program. The grant will be used to better equip the Port in emergency and natural disaster response. Funds will be used to construct a Maritime and Port security operations center and procure equipment.

Report on Compliance and Internal Control

Independent auditors rendered an unqualified or "clean" opinion on the Port's report on compliance and internal controls but identified one finding, which was a material weakness, and no questioned costs. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The finding pertained to the Port's ineffective internal controls to monitor and identify the movement of commercial cargo. In October 2009, the Port learned of an occurrence of the loading of commercial cargo by a Port tenant at a facility other than the Port, which transpired in July 2009. Public Law 26-72 requires that all commercial sea cargo moving on and off-island must be handled by the Port. Accordingly, there is a possibility of lost revenues. However, the contractor has filed a lawsuit with the U.S. District Court contesting the Port's assessment of fees and penalties.

A management letter was issued citing 10 control deficiencies including the Port's container tracking system not integrated with the JD Edwards system. In addition, the Port's manual log is not compared with the Invoice Detail Summary information to determine whether all vessel operations are properly billed and accounted for. Other deficiencies identified include the lack of internal controls over federal awards, reconciliation of the general ledger, fixed assets capitalization, leases, procurement, and overtime approval.

In addition, a separate document to the Board was issued outlining audit strategies, emphasis, required communications, audit differences, and adjustments.

For a more detailed commentary on the Port's operations, refer to the Management Discussion and Analysis in the audit report. For more details, view the reports in their entirety at www.guamopa.org or www.portguam.com.