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Port Authority of Guam (PAG) – FY 2022 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability released the Port Authority of Guam’s (PAG) Financial Statements, Report on Compliance and Internal Control, Management Letter, and Auditor’s Communication With Those Charged With Governance for fiscal year (FY) 2022. Independent auditors, Ernst & Young LLP (EY), have rendered an unmodified (clean) opinion on PAG’s financial statements and compliance over major federal programs. They found no material weaknesses or significant deficiencies in both PAG’s internal control over financial reporting and major federal programs. Furthermore, EY concluded that PAG qualified as a low-risk auditee. FY 2022 is the fourth consecutive year in which PAG qualified as a low-risk auditee.

PAG Achieves Net Position Growth of 12.6M

PAG concluded FY 2022 with a net position of \$26.4 million (M), marking an increase of \$12.6M (or 91%), from FY 2021’s net position of \$13.8M. These were due to significant increases in net nonoperating revenues by \$14M (or 1892%), from \$754 thousand (K) in FY 2021 to \$15.0M in FY 2022. The increase in net nonoperating revenues is primarily due to the \$15M grant received from the American Rescue Plan Act of 2021 Fiscal Recovery Funds as a reimbursement for COVID-related expenses. PAG also received contributions from U.S. Government capital grants of \$560K in FY 2022, specifically from the U.S. Department of Transportation Maritime Administration for construction deficiencies and equipment purchases. These increases were offset by the loss from operations of \$3.0M in FY 2022.

Increases in Containers Handled and Rental Revenue Drive Growth in Operating Revenues

PAG’s operating revenues increased by \$2.6M, from \$55.1M in FY 2021 to \$57.7M in FY 2022. The increase in operating revenues was primarily due to the increases in equipment and space rental and cargo throughput charges. Specifically, PAG had an increase of \$1.3M in equipment and space rental revenue, due to an increase in the demurrage fees charged to shipping agents for storing cargo on PAG’s terminal facilities. During FY 2022, PAG handled 89K containers, reflecting a 3% increase from FY 2021’s container cargo count of 87K. Additionally, PAG handled 141K tons of non-containerized cargo, a 30% rise from FY 2021’s 109K tons of non-containerized cargo. These cargo increases resulted in increases for certain revenue categories, notably a \$1.2M increase in cargo throughput charges, climbing from \$34.8M in FY 2021 to \$36.0M in FY 2022. The increase in operating revenues can also be attributed to the increases in wharfage charges by \$218K and crane surcharges by \$43K. These increases are offset by the decreases in other operating income by \$81K and special services revenue by \$3K.

Rising Retiree Healthcare and Other Benefits Costs Lead to Increase in Operating Expenses

PAG’s operating expenses increased by \$2.4M, from \$58.3M in FY 2021 to \$60.7M in FY 2022. The increase is primarily due to rising costs in retiree healthcare and other benefits, as well as infrequent expenses such as a bathymetric survey of the F1 Dock substructure, the demolition and disposal of five inoperable cranes and sunken barges, and the Guam Power Authority’s billing

adjustments. PAG experienced increases in general expenses and retiree healthcare and other benefits, both of which increased by \$1.0M compared to FY 2021. Additionally, there were increases in stevedoring services by \$452K, utilities expenses by \$405K, management and administration costs by \$209K, insurance expenses by \$146K, and facility maintenance expenses by \$49K. Furthermore, there were expense decreases of \$541K in transportation services, \$193K in terminal services, \$114K in depreciation expenses, and \$37K in equipment maintenance costs.

Implementation of New Accounting Standard for Leases

In June 2017, Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. With the initial adoption of GASB 87, the audited financial statements for FY 2022 were presented without prior year comparison and did not have an effect on the beginning net position. On October 1, 2021, PAG recorded lease receivables and deferred inflows of resources from leases of \$40.2M. At the start of FY 2022, PAG counted a total of 49 lease agreements with 40 companies. However, only 13 of these leases, with eight companies, were considered applicable and measurable under GASB 87. At the end of FY 2022, PAG recognized lease receivables of \$39.0M and deferred inflows of resources from leases of \$38.8M.

Net Pension Liability and Other Post-Employment Benefits (OPEB)

PAG holds a statutory responsibility to provide pension benefits to its employees through the Government of Guam (GovGuam) Retirement Fund. As of September 30, 2022, PAG disclosed a net pension liability of \$54.7M. Moreover, PAG participates in the retiree health care benefits program. Administered by GovGuam's Department of Administration, the GovGuam Group Health Insurance Program delivers medical, dental, and life insurance benefits to retirees, their spouses, children, and survivors. Those employees who currently forgo medical and dental coverage remain eligible for the life insurance benefit. This program encompasses the retirees and constitutes an other post-employment benefits plan. The collective OPEB liability as of September 30, 2022, amounts to \$107M. These combined OPEB and net pension liabilities represent 68% of PAG's total liabilities as of September 30, 2022.

Capital Assets and Port Modernization

As of FY 2022, PAG's capital assets, net of accumulated depreciation, of \$115.5M made up 40% of total assets. These assets encompass land, equipment, buildings, and improvements, and construction work-in-progress. During FY 2022, \$4.7M of new assets and construction activities, including a cumulative \$636K in capital construction projects completed and placed in service as capital assets, were added. These were offset by \$6.1M in ongoing depreciation.

Funded through federal, bond, and PAG funds, these capital assets are used to provide services for tenants and customers, and for the modernization and maintenance of PAG's assets. As part of its modernization program, some capital improvement projects that were or will be funded include the rehabilitation of the Hotel Wharf, the replacement and relocation of waterlines, the repair and expansion of the Equipment Maintenance & Repair Building and Warehouse 1, the connection of fuel pipelines, a financial management system upgrade, the removal of PAG inoperable assets and derelict vessels, and the upgrade of PAG's CCTV and access control systems.

Debt Service

As of September 30, 2022, PAG had \$67.0M in outstanding revenue bonds, a decrease from the \$69.8M balance as of September 30, 2021, due to principal payments. Under the bond indenture of the 2018 Series Revenue Bonds, PAG is required to maintain a minimum debt service coverage of 1.25 in relation to net revenues versus annual debt service. Management believes the PAG was in compliance with all bond covenants as of and for the year ended September 30, 2022. As of October 19, 2022, S&P Global Ratings maintained its outlook of PAG as stable and its long-term rating on PAG's outstanding series 2018 Port Revenue Bonds as 'A'. S&P Global opined that PAG's financial risk profile is strong due to "its strong financial performance, strong debt and liabilities capacity, and adequate liquidity and financial flexibility".

COVID-19 and Typhoon Mawar Impact and Recovery

As the lifeline to Guam's economy and the neighboring region, the PAG remained 100% operational despite the struggles brought about by the Coronavirus Disease 2019 (COVID-19) pandemic. As the only commercial seaport in Guam, over 90% of the region's goods and supplies pass through PAG's doorways. PAG's management believes that Guam's economy is expected to continue to expand and recover throughout FY 2023 and FY 2024. The upsurge in anticipated economic activity is the result of simultaneous increases in the following three areas: (1) the progression of the Marine Corps Base (MCB) Camp Blaz construction activity nearing its planned peak, (2) a record level of off-base construction projects, and (3) continued recovery in the tourism sector, which remains severely depressed from COVID-19 and related past international travel restrictions. In April 2023, the PAG's Board of Directors adopted the 2023 Master Plan, which focuses on ensuring the PAG's future readiness and resilience by strengthening its assets and resources. PAG management is also working on maintaining the performance and maintenance of their cranes, alongside securing multiple federal grants to achieve various PAG objectives and goals.

On May 24, 2023, the island of Guam suffered severe damages caused by super typhoon Mawar. As of the date of the report on the audited financial statements, PAG is unable to reasonably estimate the potential impact on its future financial statements.

Management Letter

EY issued a separate management letter that identified two deficiencies in internal control related to the census data and the general reserve fund account. During their testing of census data for other post-employment benefit liability, EY discovered three instances of incorrect gender assignment and one instance of an inconsistent date of birth for employees. The second matter concerned a cash balance related to the General Reserve Fund being classified as a restricted asset with a corresponding restricted net position for debt service, which has since been addressed by PAG management. EY's recommendations included prompt updates to employee information, a thorough census data review before submission to the Department of Administration, and accurate asset classification based on restrictions and purposes.

For more details, refer to the Management's Discussion and Analysis in the audit report at www.opaguam.org or www.portofguam.com.