



Port Authority of Guam FY 2010 Financial Highlights

January 21, 2011

The Port Authority of Guam (Port) closed fiscal year (FY) 2010 with net assets of 12% or \$7.1 million (M) primarily due to an increase in capital contributions from the federal government of \$6.1M and net earnings of \$985 thousand (K). This is the eighth consecutive year the Port realized an increase in net assets. The Port's operating expenses increased by 19% or \$5.4M from prior year. The Port received an unqualified (clean) opinion for its FY 2010 financial audit from independent auditors Ernst & Young LLP.

The Port is to be congratulated for receiving an unqualified (clean) opinion for its report on internal control and compliance with no significant deficiencies. However, the auditors made seven audit adjustments which had a cumulative effect of reducing net assets by \$1.2M. A separate management letter identified one control area of improvement to enhance efficiency by updating the Port's capitalization policy.

Operating Revenues Up By \$5.7M

Total operating revenues increased by 19% or \$5.7M from \$30.1M in FY 2009 to \$35.8M in FY 2010. Nearly every category of revenues increased with notable increases in equipment and space rental of 40%, cargo throughput charges of 16%, and other operating income of more than 300%. These increases were a combination of increases in container activity and rates. Cargo throughput charges increased by 16% or \$3.3M from \$21.0M in FY 2009 to \$24.3M in FY 2010 as more containers were handled from 94,000 in FY 2009 to 98,000 in FY 2010, coupled with a 3.4% rate increase in all cargo related charges. Equipment and space rental increased by 40% or \$2.1M from \$5.3M to \$7.4M due to newly established lease rates and a 24 cents increase per barrel of throughput for fuel from 16 cents to 40 cents. Other operating income increased by more than 300% or \$311K from \$86K to \$397K, which are attributable to adjustments made from prior year's expenses.

Operating Expenses Up By \$5.4M

The rise in operating revenues was offset by the rise in operating expenses. Operating expenses increased by \$5.4M or 19% from \$28.1M in FY 2009 to \$33.6M in FY 2010. In total, salaries and benefits increased by \$2.5M, of which \$2M was due to the Port's implementation of its Classification and Compensation Study. The remaining balance was due to increase in the number of employees by 13 from 334 in FY 2009 to 347 in FY 2010. Supplies and repairs and maintenance increased by \$1.5M due to maintaining the aging cargo handling equipment of the Port. Professional services, which includes legal and consulting fees, increased by \$679K from \$850K in FY 2009 to \$1.5M in FY 2010. Rate adjustments are now approved by the Public Utilities Commission (PUC). FY 2010 is the first year the Port is under the purview of the PUC, incurring \$58K of administrative and legal PUC fees.

Non-Operating Expenses

Cost of Living Allowances (COLA) and supplemental annuities paid to Port retirees almost doubled increasing by \$1.4M from \$1.6M in FY 2009 to \$3.0M in FY 2010 mainly due to a \$1M reimbursement to the General Fund per Public Law 30-101 for past COLA and annuities made on behalf of Port retirees.

\$6.1M in Federal Grants for Capital Projects

The Port received \$6.1M in federal grants, of which \$1.3M was in American Recovery and Reinvestment Act funds. Majority of these grants were intended for capital improvement projects related to the implementation of the Port Modernization Plan, such as preliminary engineering and design activities, site assessment, truck gate and terminal operating system specifications, and security and communications design.

Port Modernization Program

The Port modernization program spans a 30-year planning horizon and is valued at \$260M. Phase I-A and I-B to be accomplished over the next five years will focus on critical maintenance and repair of waterfront activities and the dredging and uplands expansion needed to handle the near-term cargo of the military build up. Phase I-A includes reconfiguration and expansion of the cargo terminals and selected buildings, creation of a new gate complex, upgrade of utilities and security features and state-of-the-art terminal and gate operating systems. Phase I-A is estimated to cost approximately \$104.5M, which will be funded by (1) \$50M appropriation from the Department of Defense combined with (2) \$54.5M in loans from the United States Department of Agriculture (USDA). In October 2010, USDA awarded the Port \$54.5M in loans as follows:

- \$25M is USDA Community Facilities (CF) Direct Loan;
- \$25M USDA CF guaranteed term loan with ANZ Guam, Inc. (ANZ); and
- \$4.5M USDA guaranteed term loan with ANZ.

Report on Compliance and Internal Control

The Port received an unqualified or clean opinion on compliance and internal controls as there were no material weaknesses or significant deficiencies.

A separate management letter identified one control area relating to the Port's capitalization policy as certain expenditures were capitalized to construction-in-progress accounts instead of being expensed. The letter also identified other matters relating to the Port's (1) improvement of controls on annual and sick leave process; (2) need to revisit its emergency procurement requirements; and (3) documentation on procurement.

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.