



**Financial Highlights**  
**Port Authority of Guam Financial Audit**  
**Fiscal Year 2023**

August 1, 2024

The Port Authority of Guam (Port) received unmodified (clean) opinions on the preparation of its fiscal year (FY) 2023 financial statements, and on its report on compliance for major federal programs. The independent auditors, Ernst and Young LLP, did not identify any material weaknesses or significant deficiencies in Port's internal controls over its financial reporting and over its major federal programs. In addition, the independent auditors identified two deficiencies in internal control in the Management Letter.

Port closed FY 2023 with a \$4.6 million (M) increase in net position (or net income), thereby increasing its net position to \$31.0M from FY 2022's net position of \$26.4M. The net result of operating revenues minus operating expenses in FY 2023 was an operating income of \$4.6M. When adding back the \$6.2M non-cash expense of depreciation, the result is a \$1.6M operating loss in FY 2023. After adding \$4.4M in net non-operating revenues and \$1.8M in U.S. Government capital grants, Port concluded FY 2023 with a \$4.6M increase in net position (or net income).

**Increases in Non-Containerized Cargo and Rental Revenue Drive Growth in Operating Revenues**

Despite the challenges posed by Typhoon Mawar (Mawar), Port's operating revenues increased by \$2.9M, from \$57.7M in FY 2022 to \$60.6M in FY 2023. The increase in operating revenues was primarily due to increased equipment and space rental and cargo throughput charges. Specifically, Port had an increase of \$981 thousand (K) in equipment and space rental due to increased demurrage fees charged to shipping agents for storing cargo on Port's terminal facilities. This revenue increase is despite extending the free storage period to local businesses and industry partners due to Mawar. During FY 2023, Port handled 86K containers, reflecting a 3.8% decrease from FY 2022's container cargo count of 89K. Additionally, Port handled 215K tons of non-containerized cargo, a 52% rise from FY 2022's 141K tons of non-containerized cargo. These cargo increases resulted in increases for certain revenue categories, notably a \$303K increase in cargo throughput charges, climbing from \$36.0M in FY 2022 to \$36.3M in FY 2023. Cargo throughput charges are comprised of increase in breakbulk by \$475K, roll-on/roll-off cargo by \$342K, cargo on chassis by \$231K, and overstowed containers by \$100K.

The increase in operating revenues can also be attributed to the increases in other operating income by \$1.6M, wharfage charges by \$166K, and special services revenue by \$6K. These increases were offset by the decreases in crane surcharge by \$98K due to a decrease in container cargo count and bad debt expense by \$85K due to the Port's aging calculation policy. None of the FY 2022 and FY 2021 revenues were formally recorded as uncollectible in consideration of the negative economic impacts of the Coronavirus Disease 2019 (COVID-19) from early 2020 into 2022. Other operating income increased by \$1.6M from the \$2.0M received as a result of the insurance claim proceeds from the debris, damages, and business interruptions that followed Mawar.

## **Operating Expenses Increase Despite Decreases in Retiree Healthcare and Other Benefits and General Expenses**

Port's operating expenses increased by \$1.5M, from \$60.7M in FY 2022 to \$62.2M in FY 2023. Specific increases were \$2.4M in management and administration, \$819K in terminal service, \$602K in transportation services, \$432K in equipment maintenance, \$178K in facility maintenance, and \$11K in stevedoring services. These expense increases were largely attributed to increases in pension costs. Utilities expenses increased by \$450K, mainly due to the increases in electricity, internet access and email services. Other increases included \$45K in depreciation and \$12K in insurance expenses.

However, other operating expenses decreased as follows: \$1.9M in retiree healthcare and other benefits and \$1.5M in general expenses. The \$1.5M decrease in general expenses is attributed to the infrequent expenses made in FY 2022 for a bathymetric survey that mapped out and illustrated the underwater terrain of the F1 Dock substructure and the start of the demolition and disposal of five inoperable cranes and sunken barges, as well as to the near completion of the Grant Master Plan Update<sup>1</sup> project in FY 2023.

## **Governmental Accounting Standards Board (GASB) 87 Lease Liability**

Port leases its land, infrastructure, and building space to private companies to further develop the maritime industries in Guam. With the adoption of GASB 87, Port continues to recognize on the balance sheet the present value of these payments expected to be received for the remainder of the lease term. As the lessor, Port recognized lease receivables of \$37.9M and a deferred inflow of resources from leases of \$37.4M as of FY 2023. Port counted a total of 46 lease agreements with 40 companies at the start of FY 2023. However, only 13 of these leases, with eight companies, continue to be applicable and measurable under GASB 87.

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

Port holds a statutory responsibility to provide pension benefits to its employees through the Government of Guam (GovGuam) Retirement Fund. As of September 30, 2023, Port disclosed a net pension liability of \$73.4M. Moreover, Port participates in the retiree healthcare 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, 2023 amounts to \$90.4M. These combined OPEB and net pension liabilities represent 69% of Port's total liabilities as of September 30, 2023.

## **Capital Assets and Port Modernization**

As of FY 2023, Port's capital assets of \$121.6M, net of accumulated depreciation, made up 41% of total assets. These assets encompass land, equipment, buildings, improvements, and construction work-in-progress. During FY 2023, new assets and construction activities of \$15.4M

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<sup>1</sup> In April 2023, Port's Board of Directors unanimously adopted the Port 2023 Master Plan. The 2023 Master Plan is focused on ensuring the future readiness and resiliency of a modernized facility through the hardening of Port assets and resources to address national security concerns from the current and anticipated geopolitical environment, as well as addressing continued professional and technical services oversight and support to address port sustainability and resiliency, environmental initiatives to reduce Port's carbon footprint and reduce its greenhouse effects, and strategic goals toward zero waste improvements.

were added, including a cumulative \$1.8M in capital construction projects completed and placed in service as capital assets. These were offset by \$6.2M in ongoing depreciation.

Funded through federal, bond, and Port funds, these capital assets are used to provide services for tenants and customers, and for the modernization and maintenance of Port’s assets. As part of its modernization program, some capital improvement projects (CIP) that were or will be funded include the following:

### Status Summary of Projects

| No. | Purpose/Project  | Status   |
|-----|--|--|
| 1   | Hotel Wharf Rehabilitation and Reconstruction.                         | Phased rehabilitation of wharf structure with a new bulkhead, modern mooring and fendering system, utilities, and pavement. The design phase is 95% complete, and the next step is construction. |
| 2   | Golf Pier Repairs and Improvements.                                    | The damages recently sustained by Mawar rendered the pier inoperable. Port is working with a consultant to estimate repair and alternative replacement costs.                                    |
| 3   | Waterline Replacement and Relocation.                                  | The project is still ongoing, and construction is currently 56% complete. The estimated completion date is December 2024.  |
| 4   | Equipment, Maintenance and Repair (EQMR) Building.                     | The EQMR Building project is 68% complete, with an estimated completion date of September 2024.  |
| 5   | Warehouse 1 Rehabilitation and Upgrade.                                | The project has completed the design phase and is now awaiting construction.   |
| 6   | Fuel Pipeline Connectivity.  | The project is in the design phase and is currently at a 65% completion rate.  |
| 7   | Financial Management System Upgrade to Oracle JDE Enterprise One (E1). | The project is still ongoing, as Port is looking to finalize E1 capabilities for special service request invoicing and vessel operations invoicing in relation to the Job Cost module.           |
| 8   | Removal of the Port Inoperable Assets Project.                         | Demolition of the ship-to-shore gantry cranes is still ongoing. Once completed, the last project will be the disposal of the sunken barges.  |
| 9   | CCTV and Access Control Systems Project.                               | Cameras were installed throughout the cargo terminal, primarily on high-mast light poles in the Administration Building and Horizon Building. The project was completed in FY 2023.              |

### Debt Service

As of September 30, 2023, Port had \$64.1M in outstanding revenue bonds, a decrease from the \$67.0M balance as of September 30, 2022, due to principal payments. Under the bond indenture of the 2018 Series Revenue Bonds, Port is required to maintain a minimum debt service coverage of 1.25 in relation to net revenues versus annual debt service. For FY 2023, the annual debt service coverage was 2.29. As of September 28, 2023, S&P Global Ratings maintained its outlook of Port as stable and its long-term rating on Port’s outstanding series 2018 Port Revenue Bonds as 'A.' S&P Global opined that Port’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**

Guam continued its efforts to adjust, restructure, and rebuild after the negative economic impacts of the COVID-19. As the only commercial seaport in Guam, over 90% of the region's goods and supplies pass through Port's doorways providing a lifeline to Guam's economy and the neighboring region. Port's management believes that Guam's economy has been, and is expected to be, driven by a combination of the needs of a growing population and military presence, continued expansion and diversification in the tourism industry, and private and public investment in construction projects for the civilian and defense sectors. In February 2023, MS *Amadea*, the first cruise liner to visit Guam since the COVID-19 pandemic began, was welcomed at the Port. Since then, Guam has welcomed nine more cruise liners, with the most recent arrival in May 2024.

On May 24, 2023, Guam was struck by the hurricane-force winds and heavy rain of Category 4 Mawar – marking it the strongest typhoon to hit our island in over 20 years. From May 19 to 28, 2023, Port operations were put on hold in preparation for and as a result of Mawar. Despite the trail of destruction left by Mawar, Port worked tirelessly to get back up and operational in order to service the needs of the island community. Port was able to resume vessel operations only four days after the typhoon's assault on Guam.

On May 25, 2023, the U.S. President issued a major disaster declaration for Guam, thereby giving the Federal Emergency Management Agency (FEMA) authorization to allocate from available funds necessary for federal disaster assistance. The federal funding made available for total eligible costs came from Public Assistance, Hazard Mitigation, Housing Assistance and Other Needs Assistance. On August 9, 2023, FEMA announced the President's authorization to increase the federal cost-share of Guam's Mawar major disaster declaration to 90% instead of the standard 75%.

While cargo operations are slowly moving back to normal, Port is still making efforts to recover from the damages sustained by Mawar (such as with the Golf Pier, Cementon, F-1 Fuel Pier, Hotel Wharf, and Wharves F-3 through F-6) and continue to work on much-needed CIP to ensure operational sustainability.

## **Management Letter**

Independent auditors issued a separate Management Letter that identified two deficiencies in internal control. These are:

1. **Compliance with Financial Policy related to Bond Indenture:** The Working Capital Reserve Account<sup>2</sup>, established within the Capital Improvement Fund under the Bond Indenture, had a balance below the requirement set by Port's internal O&M Policy as of September 30, 2023. This policy mandates that the reserve account cover 180 days of operational and maintenance costs for the current fiscal year. Independent auditors recommended that management consider maintaining the balance required by their internal policy and document its use, especially during cash flow shortages, as the account can be utilized for operational and maintenance expenses.
2. **Impairment of Assets:** The Golf Pier, damaged by Mawar, requires restoration to restore its service utility. An active project is in progress. Under GASB Statement No. 42,

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<sup>2</sup> The Working Capital Reserve Account is not an indenture requirement and has no specific required amount. Although Port created a trustee account, Port maintained substantial cash reserves since the issuance of the 2018 Series Revenue Bond. Port established several reserve accounts and, together with other cash deposits, exceeded 800 days of operating funds, currently totaling roughly \$120M, ensuring fiscal prudence and bond compliance.

significant physical damage necessitating restoration indicates asset impairment. As of September 30, 2023, the \$1.3M net book value of these impaired assets was adjusted during the audit. Independent auditors recommended that management implement controls to assess capital assets for impairment in accordance with GASB Statement No. 42, particularly following natural disasters.

For more details, refer to the Port's FY 2023 Financial Statements, Reports on Compliance for Each Major Federal Program and Internal Control Over Financial Reporting, Management Letter, and The Auditor's Communication With Those Charged With Governance at [www.opaguam.org](http://www.opaguam.org) or [www.portofguam.com](http://www.portofguam.com).