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Port Authority of Guam—Fiscal Year 2018 Financial Highlights

May 7, 2019

Hagåtña, Guam - The Office of Public Accountability released the Port Authority of Guam's (PAG) financial statements for fiscal year (FY) 2018. Independent auditors Deloitte & Touche, LLP rendered clean opinions on PAG's financial statements and compliance over major federal programs. In addition, the auditors did not identify any material weaknesses and significant deficiencies on internal controls. In FY 2018, PAG still did not qualify for the low-risk status after it lost this designation in FY 2017 due to a late report submission to the Federal Clearing House.

Emphasis of Matters

The independent auditors' report on the financial statements included emphasis about PAG's:

1. Pending litigation with Guam YTK Corporation, a former tenant. PAG is a defendant in a claim filed by YTK. The dispute was submitted to arbitration. In April 2016, the Arbitrators issued a decision in favor of YTK and awarded YTK \$14 million (M) plus interest. In December 2016, the Superior Court of Guam denied PAG's motion to vacate the Arbitration Award and granted YTK's Motion to Confirm the Award. In January 2018, PAG filed a Motion to Dismiss in the Supreme Court of Guam. No provision has been recorded pending resolution of the matter.
2. Adoption of Governmental Accounting Standards Board (GASB) No. 75, which pertains to the accounting and reporting of post-employment medical, dental, and life insurance benefits to retirees, spouses, children, and survivors. Because of this, PAG restated its FY 2017 financial statements, which reduced its net position from \$91.0M to \$12.0M as of FY 2017. Other post-employment benefits liability were \$84.8M and \$88.8M as of FY 2018 and FY 2017, respectively.

Increased Operating Income

PAG showed \$3.6M positive results of operations in FY 2018 compared to \$1.4M negative results in FY 2017. PAG's net operating revenues increased by \$3.6M (or 7%) to \$54.3M in FY 2018. This was primarily due to the 7% increase on terminal tariff rates starting January 1, 2018.

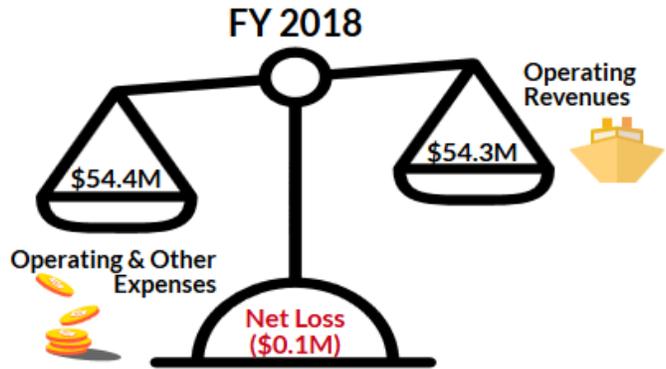
On the other hand, operating expenses decreased by \$1.4M (or 2%) to \$50.7M in FY 2018. Despite four additional employees as of FY 2018, salaries and wages decreased by \$955 thousand (K). The decrease in salaries was mainly due to the \$899K sick leave adjustment for employees who moved from Defined Contribution Plan to Defined Benefit 1.75 Plan.

There would have been a further decrease in total operating expenses in FY 2018. However, because of the implementation of GASB No. 75, PAG recognized \$4.8M in other post-employment benefits expense in FY 2018. PAG also restated its FY 2017 operating expenses from \$46.6M to \$52.2M due to \$5.6M other-post employment benefits expense.

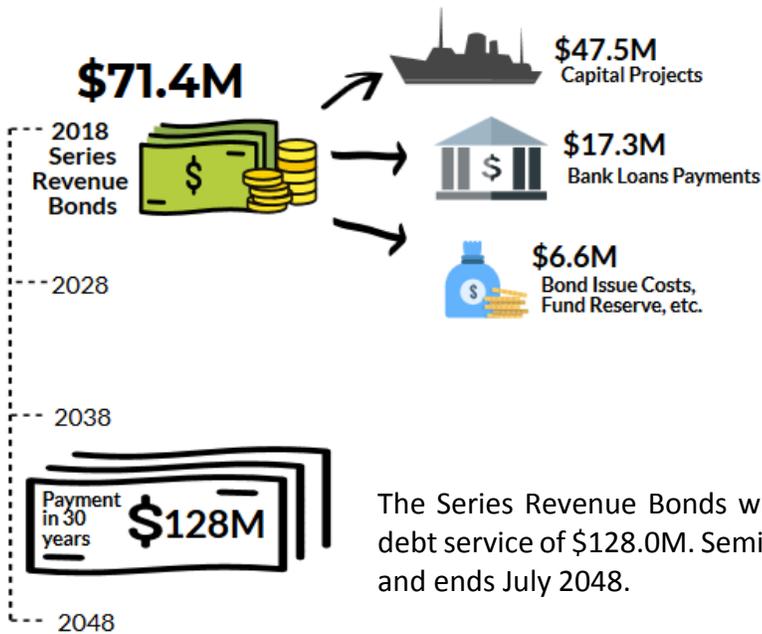
Net Loss despite Earnings from Operations

Despite \$3.6M earnings from operations in FY 2018, PAG has showed a \$103K net loss because of the following non-operating items:

- \$2.8M bond issue costs and interests;
- \$614K back wages to an employee. PAG Board voted to award back wages of the reinstated employee after the decision by the Supreme Court in February 2018; and
- \$300K in other net non-operating expenses.



Issuance of 2018 Series Revenue Bonds



In June 2018, PAG successfully sold its Series Revenue Bonds for \$71.4M. PAG’s combined investment ratings by S&P and Moody’s was the highest rating for any Government of Guam rating and contributed to securing favorable interest rates. PAG used the bonds to finance various capital projects, retire certain existing bank loans, provide for capitalized interest for up to two years, fund the bond reserve, and pay issuance costs.

The Series Revenue Bonds will entail \$56.5M in total interest, for a total debt service of \$128.0M. Semi-annual payments will commence in July 2019 and ends July 2048.

Management Letter Comments

The independent auditors issued a Management Letter that identified two repeat findings: (1) final turnover of documents pertaining to the Port Modernization Plan, and (2) lease agreements not finalized. This was an improvement from the prior year’s six findings. In addition, a separate Management Letter on the PAG’s internal control on information technology identified five deficiencies.

For a more detailed discussion on PAG’s operations, refer to the Management’s Discussion and Analysis or view the reports in their entirety at www.opaguam.org or at www.portguam.com.