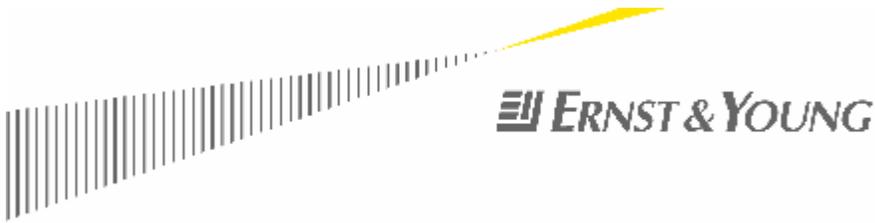


Statement of Auditing Standards No. 114
The Auditor's Communication with Those
Charged with Governance

Port Authority of Guam

For the year ended September 30, 2009

Ernst & Young



Ernst & Young LLP
231 Ypao Road
Suite 201, Ernst & Young Building
Tamuning, Guam 96913
Tel: +1-671-649-3700
Fax: +1-671-649-3920
www.ey.com

January 29, 2010

The Board of Directors
Attention: Mr. Joseph Camacho
Port Authority of Guam
1026 Cabras Highway, Suite 201
Piti, Guam 96925

We have performed an audit of the financial statements of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued our report thereon dated January 29, 2010.

This report to the Finance Committee summarizes our communications to the board of directors required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which the management of the Authority is responsible.

REQUIRED COMMUNICATIONS

Statement on Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance*, and other professional standards require the auditor to provide the Finance Committee (the Committee) of the board of directors (or those charged with governance) with additional information regarding the scope and results of the audit that may assist the Committee (or those charged with governance) in overseeing management's financial reporting and disclosure processes. We summarize these required communications as follows:

Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS)

The financial statements are the responsibility of the Authority's management. Our audit was designed in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting.

Auditors' Responsibilities under US GAAS, continued

Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

As part of our audit, we considered the Authority's internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances.

The Adoption of, or a Change in Significant Accounting Policies

We determined that the Finance Committee is informed about the initial selection of, and any changes in significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.

Other than the change in accounting for the Government of Guam Defined Benefit Plan, from a single-employer to a cost-sharing multiple-employer, which resulted in a prior period adjustment as shown in the financial statements; there were no other changes in the Authority's significant accounting policies during the year ended September 30, 2009. The Authority continues to apply its accounting policies in an appropriate manner and is disposed toward high quality financial reporting and application of accounting policies.

Auditor's Judgments About the Quality of the Authority's Accounting Principles

We discussed our judgments about the quality, not just the acceptability, of the Authority's accounting principles as applied in its financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.

The Authority has consistently applied accounting principles generally accepted in the United States (US GAAP) and adequately disclosed required US GAAP disclosures in the financial statements.

Sensitive Accounting Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.

We determined that the Committee is informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Management's judgment is called upon in:

- Preparing budgets that are used to administer and monitor the Authority's operations. These budgets include determining how existing financial resources will be used in the Authority's operations.
- Determining the adequacy of the recorded valuation of receivables, including the need for any reserve.
- Determining assumptions utilized in measuring pension and other employee-related reserves and related costs for financial accounting purposes.

Significant Audit Adjustments

During our audit, several post-closing entries were recorded while we were conducting our fieldwork.

We also proposed adjusting journal entries, which the Authority subsequently agreed to be reflected in the financial statements. Certain reclassifying journal entries have also been made to make the financial statements for the years ended September 30, 2009 and 2008 comparative (see Appendix A – *Adjusting and Reclassifying Journal Entries*).

Unadjusted Audit Differences Considered by Management to be Immaterial

Certain unadjusted audit differences accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) were identified during the audit and pertaining to the latest period presented, which were determined by the Authority's management to be immaterial, both individually and in the aggregate, to the financial statements as a whole (see Appendix B – *Summary of Unrecorded Audit Differences*).

Other Information in Documents Containing the Audited Financial Statements

We reviewed the Management's Discussion and Analyses and other supplementary schedules to the financial statements to ensure consistency with the audited financial statements.

Consultation with Other Accountants

During the course of our audit, we made consultations within the Ernst & Young practice leaders in the Far East and Americas regarding our understanding on the Authority's recording and interpretation of the re-designation of the Defined Benefit Plan administered by the Government of Guam Retirement Fund from single-employer plan to a cost-sharing multiple-employer plan.

Disagreements with Management on Financial Accounting and Reporting Matters

There were no material disagreements with the Authority's management on financial accounting and reporting matters during the audit.

Major Issues Discussed with Management Prior to Retention

There were no major accounting issues discussed with the Authority's management prior to our retention.

Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Issues

We are not aware of any significant unusual transactions recorded by the Authority, or of any significant accounting policies used by the Authority related to controversial or emerging areas for which there is lack of authoritative guidance.

Serious Difficulties Encountered in Dealing with Management in Performing the Audit

There were no serious difficulties encountered in dealing with management in performing the audit.

Fraud and Illegal Acts

We are not aware of any matters that require communication. Furthermore, the Authority's management has represented to us that they were not aware of any fraud or illegal acts for the period from October 1, 2008 to January 29, 2010 (see Appendix C – *Management's Representation Letter*).

Significant Deficiencies and Material Weaknesses in Internal Control

We have identified several control deficiencies in internal control during the course of our audit which have been included in our separately issued Management Letter dated January 29, 2010.

Independence

We are not aware of any relationships between Ernst & Young and our related entities, and the Authority, or any other matters that in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that we are independent with respect to the Authority within the meaning of the applicable published rules and pronouncements, its interpretations and rulings.

The completion of our audit of the Authority's financial statements as of and for the year ended September 30, 2009 was accomplished through the effective support and assistance of the Authority's finance, operational and administrative personnel.

This report is intended solely for the use of the Authority's board of directors and management, the Office of Public Accountability, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We would be happy to discuss the contents of this report and answer any questions you may have about these or any other audit related matters.

Very truly yours,

Ernst + Young LLP

Appendix

A – Adjusting and Reclassifying Journal Entries

B – Summary of Unrecorded Audit Differences

C – Management’s Representation Letter

Appendix A

Port Authority of Guam
Year End: September 30, 2009
Adjusting and Reclassifying Journal Entries
Date: 10/1/2008 To 9/30/2009
Account No: AJE1 To AJE 1

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
Net Income (Loss) Before Adjustments							1,950,277		
AJE1	9/30/2009	Travel	620.0675	X 0600	32,831				
AJE1	9/30/2009	Master Plan OB C/Ps	1622.MPCIP	X 0600		32,831			
To reverse the travel expenses booked in C/P.					32,831	32,831	1,925,446	(32,831)	
AJE2	9/30/2009	Prior Period Adjustm	4711	T0100	4,115				
AJE2	9/30/2009	Miscellaneous Income	9112	T0100		4,115			
To correct the beginning balance of net assets per books.					4,115	4,115	1,929,561	4,115	
AJE3	9/30/2009	Unfunded Retirement C	3611	F 0600	750,974				
AJE3	9/30/2009	Net Pension Obligation Write-off	EY0100	P 0600					
AJE3	9/30/2009	Unfunded Retirement	101.0134	F 0600	4,994				
AJE3	9/30/2009	Unfunded Retirement	121.0134	P 0600		45,676			
AJE3	9/30/2009	Unfunded Retirement	122.0134	P 0600		43,472			
AJE3	9/30/2009	Unfunded Retirement	123.0134	P 0600		13,920			
AJE3	9/30/2009	Unfunded Retirement	145.0134	P 0600		9,854			
AJE3	9/30/2009	Unfunded Retirement	150.0134	P 0600		7,263			
AJE3	9/30/2009	Unfunded Retirement	300.0134	P 0600		9,349			
AJE3	9/30/2009	Unfunded Retirement	312.0134	P 0600		98,099			
AJE3	9/30/2009	Unfunded Retirement	313.0134	P 0600		11,070			
AJE3	9/30/2009	Unfunded Retirement	320.0134	P 0600		59,033			
AJE3	9/30/2009	Unfunded Retirement	330.0134	P 0600		51,743			
AJE3	9/30/2009	Unfunded Retirement	331.0134	P 0600		81,961			
AJE3	9/30/2009	Unfunded Retirement	332.0134	P 0600		48,418			
AJE3	9/30/2009	Unfunded Retirement	333.0134	P 0600		6,601			
AJE3	9/30/2009	Unfunded Retirement	400.0134	P 0600		14,066			
AJE3	9/30/2009	Unfunded Retirement	410.0134	P 0600		7,081			
AJE3	9/30/2009	Unfunded Retirement	411.0134	P 0600		26,808			
AJE3	9/30/2009	Unfunded Retirement	412.0134	P 0600		16,125			
AJE3	9/30/2009	Unfunded Retirement	413.0134	P 0600		14,930			
AJE3	9/30/2009	Unfunded Retirement	414.0134	P 0600		19,026			
AJE3	9/30/2009	Unfunded Retirement	420.0134	P 0600		8,600			
AJE3	9/30/2009	Unfunded Retirement	421.0134	P 0600		31,873			
AJE3	9/30/2009	Unfunded Retirement	423.0134	P 0600		40,053			
AJE3	9/30/2009	Unfunded Retirement	600.0134	P 0600		17,235			
AJE3	9/30/2009	Unfunded Retirement	610.0134	P 0600		10,720			
AJE3	9/30/2009	Unfunded Retirement	620.0134	P 0600		15,804			
AJE3	9/30/2009	Unfunded Retirement	631.0134	P 0600		4,827			
AJE3	9/30/2009	Unfunded Retirement	632.0134	P 0600		4,812			
AJE3	9/30/2009	Unfunded Retirement	640.0134	P 0600		24,095			
AJE3	9/30/2009	Unfunded Retirement	670.0134	P 0600		21,494			
AJE3	9/30/2009	Unfunded Retirement	675.0134	P 0600		240			
AJE3	9/30/2009	Unfunded Retirement	681.0134	P 0600		34,711			
AJE3	9/30/2009	Unfunded Retirement	685.0134	P 0600		5,699			
To reverse the unfunded pension cost balance for prior and current year accruals					750,974	750,974	2,680,535	750,974	
AJE4	9/30/2009	Allowance For Uncollectible Accounts	1212	E 0120		302,933			
AJE4	9/30/2009	Bad Debt Writeoff	70.9512	E 0120	302,933				
To record additional allowance for doubtful accounts.					302,933	302,933	2,377,602	(302,933)	
AJE5	9/30/2009	Accrued Vacation Pay-Current	3330	P 0600		81,792			
AJE5	9/30/2009	Accrued Vacation Pay-Noncurrent	3612	P 0600	81,792				
To adjust current and long-term portions of the accrued annual leave.					81,792	81,792	2,377,602	0	
AJE6	9/30/2009	Fed. Reimb. - Off. of Economic A	6410.OEA	X 0183	148,511				
AJE6	9/30/2009	Master Plan OB C/Ps	1622.MPCIP	X 0183		148,511			
AJE6	9/30/2009	Accounts Receivable-O	1221.OTHERS	X 0183		148,511			
AJE6	9/30/2009	Accounts Payable Other	3111.OTHERS	X 0183	148,511				
To reverse the C/P and related AR accrual for Task Order No. 4, 9, 10 and 21 relating to the P9 OEA project.									

Appendix A, continued

Port Authority of Guam

Year End: September 30, 2009

Adjusting and Reclassifying Journal Entries

Date: 10/1/2008 To 9/30/2009

Account No: AJE1 To RJE 1

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
					298,622	298,622	2,228,091	(148,911)	
AJE7	9/30/2009	Fed. Reimb. - Off. of Economic A	6410.0EA	X 0183	51,150				
AJE7	9/30/2009	Master Plan OB C/Ps	1622.MP.C/P	X 0183		51,150			
AJE7	9/30/2009	Accounts Receivable-O	1221.OTHERS	X 0183		51,150			
AJE7	9/30/2009	Accounts Payable Othe	3111.OTHERS	X 0183	51,150				
		To reverse the CP and related AR accrual for Task Order No.28 relating to the PS DEA project.							
					102,300	102,300	2,176,941	(51,150)	
AJE8	9/30/2009	Miscellaneous income	9112	V D0210	35,741				
AJE8	9/30/2009	Workmen's Comp Injury	70.8151	V D0210		35,741			
		To record worker's compensation paid for James Villagomez during 9/22/08-9/25/08 in the proper period.							
					35,741	35,741	2,176,941	0	
AJE9	9/30/2009	Miscellaneous income	9112	V D250	45,760				
AJE9	9/30/2009	Legal Counsel-Other	70.8556.OTHER	V D250		45,760			
		To reverse prior period legal fees booked in FY2008.							
					45,760	45,760	2,176,941	0	
AJE10	9/30/2009	Maintenance-FAO Mobil	70.8361	V D2110	68,093				
AJE10	9/30/2009	FACILITY USAGE - MOBIL	6111.MOBL	V D2110		68,093			
		To record Mobil management fee that was offset against revenue.							
					68,093	68,093	2,176,941	0	
AJE11	9/30/2009	Reserve Shortage/Prop	2505	P 0100	20,000				
AJE11	9/30/2009	Miscellaneous Income	9112	P 0100		20,000			
		To reverse the reserve for claims recorded in 1997.							
					20,000	20,000	2,196,941	20,000	
AJE12	9/30/2009	Miscellaneous Income	9112	U60300		47,305			
AJE12	9/30/2009	Fed. Reimb. - Depto	6410.D01	U60300	47,305				
		To record federal revenue in the proper period.							
					47,305	47,305	2,196,941	0	
AJE13	9/30/2009	Miscellaneous Income	9112	V D0540	138,537				
AJE13	9/30/2009	Water	708.321	V D0540		138,537			
		To reverse the prior year water expense booked in FY 2008.							
					138,537	138,537	2,196,941	0	
AJE14	9/30/2009	Miscellaneous Income	9112	V D0540	108,952				
AJE14	9/30/2009	Water	708.321	V D0540		68,838			
AJE14	9/30/2009	Accounts Payable Othe	3111.OTHERS	V D0540		178,787			
		To take up additional accruals for OWA invoices relating to prior year and current year.							
					178,787	178,787	2,018,154	(178,787)	
RJE 1	9/30/2009	Accounts Payable Trade	3111.TRADE	N0100	55,772				
RJE 1	9/30/2009	Accounts Payable Othe	3111.OTHERS	N0100		55,772			
		To reclassify July legal fees recorded in AP Trade to AP Others.							
					55,772	55,772	2,018,154	0	
					2,168,958	2,168,958	2,018,154	59,877	

Appendix C



Felix P. Camacho
Governor of Guam

Michael W. Cruz
Lieutenant Governor

PORT AUTHORITY OF GUAM
ATURIDAT I PUETTON GUAHAN
Jose D. Leon Guerrero Commercial Port
Government of Guam
1026 Cabras Highway, Suite 201
Piti, Guam 96925



Telephone: (671) 477-2931/35
 (671) 477-2683/83
Facsimile: (671) 477-2689/4445
Webpage: www.portofguam.com

January 29, 2010

Ernst & Young LLP
231 Ypao Road
Suite 201, Ernst & Young Building
Tamuning, Guam 96913

In connection with your audit of the financial statements of the Port Authority of Guam (the Authority) as of September 30, 2009 and for year then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Authority in conformity with accounting principles generally accepted in the United States.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

Management's responsibilities

We recognize that, as members of management of the Authority, we are responsible for the fair presentation of its financial statements. We believe the statements of financial position, results of operations and cash flows are fairly presented in conformity with accounting principles generally accepted in the United States applied on a basis consistent with that of the preceding period. We also recognize that, as members of management of the Authority, we are responsible for establishing and maintaining effective internal control.

Ernst & Young LLP assisted in drafting the format of the financial statement footnotes and for the formatting of the schedules that appear in the Port Authority of Guam's financial statements in accordance with standards of the Government Accounting Standards Board and the guidelines of the Government Finance Officers Association (if applicable). Management accepts responsibility for the schedules that appear in the Port Authority of Guam's financial statements as our own and have prepared the source documents for all transactions and have maintained accounting control.

Appendix C, continued

We have made available to your representatives all financial records and related data.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Unrecorded audit differences

We believe that the effects of any unrecorded audit differences, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, to the extent that audit differences have been subsequently identified in the current period that affect prior year financial statements, we have evaluated the effect of correcting prior year financial statements and believe that the effects of the unrecorded audit differences are immaterial, both individually and in the aggregate, to the prior year financial statements taken as a whole.

Internal control

We are responsible for establishing and maintaining effective internal control over financial reporting.

There are no transactions of a material nature, individually or in the aggregate, that have not been properly recorded in the accounting records underlying the financial statements.

We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting.

Minutes and contracts

We have made available to you all minutes of the meetings of shareholders, directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Risks and uncertainties

There are no risks and uncertainties related to significant estimates and current vulnerabilities due to material concentrations that have not been disclosed in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 275, *Risks and Uncertainties*.

Ownership and pledging of assets

The Authority has satisfactory title to all assets appearing in the balance sheet. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged. All assets to which the Authority has satisfactory title appear in the balance sheets.

Appendix C, continued

Receivables and revenues

Receivables represent valid claims against the debtors indicated and do not include amounts for goods shipped or services provided subsequent to the balance sheet date, goods shipped on consignment, or other types of arrangements not constituting sales.

Receivables and revenues, continued

All revenue recognized as of the balance sheet date has been realized (or is realizable) and earned. Revenue has not been recognized before (1) persuasive evidence of an arrangement exists, (2) goods have been delivered or services rendered, (3) consideration to be received is fixed or determinable and (4) collectibility is reasonably assured.

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to the balance sheet date in respect of sales and services rendered prior to that date and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at that date.

We have adequately disclosed a description of our major revenue-generating products and services, the types of arrangements (including multiple-element arrangements) used to deliver these products or services, and a description of the revenue recognition policies applicable to these products or services.

Inventories

Inventories, including goods that are defective, slow-moving, obsolete or unusable, are stated at amounts not in excess of their estimated net realizable values.

Physical counts and measurements of inventories were made by competent employees under the supervision of management and book records were appropriately adjusted after giving recognition to cut-off for materials received and products shipped.

Contingent liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with ASC 450-20, *Contingencies - Loss Contingencies* other than those disclosed in the financial statements.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by ASC 450-20, nor are there any accruals for loss contingencies included in the balance sheets or gain contingencies reflected in earnings that are not in conformity with the provisions of ASC 450.

There are no oral or written guarantees, including guarantees of the debt of others.

Appendix C, continued

Purchase commitments

At September 30, 2009 and 2008, the Authority had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at those dates.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2009 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

Fraud

We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

Independence

We are not aware of any capital lease, material cooperative arrangement or other business relationship between the Authority and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be considered to be independent for purposes of the Authority's audit.

Conflicts of interest

There are no instances where any officer or employee of the Authority has an interest in a Authority with which the Authority does business that would be considered a "conflict of interest." Such an interest would be contrary to Authority policy.

Other Matters

- We have identified and disclose to you, all laws, regulations and provisions of controls and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions.
- We have identified and disclosed to you violations (and possible violations) of laws, regulations and provisions of contracts and grant agreements with effects that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- We have followed applicable laws and regulations in adopting, approving and amending deposits and investments, including collateral requirements on depository accounts.

Appendix C, continued

Other Matters, continued

- Net asset components (invested in capital assets, restricted and unrestricted) are properly classified and, if applicable, approved.
- Risk disclosures associated with deposits are presented in accordance with GASB requirements.
- Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
- Required supplementary information is measured and presented within prescribed guidelines (MD&A and pension schedule related to GASB 27).

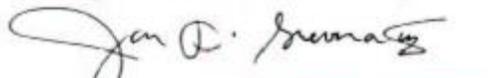
Subsequent events

Subsequent to September 30, 2009, no events or transactions have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Authority's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, results of operations or cash flows of the Authority.

We understand that your audit was conducted in accordance with auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants and was, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of the Authority taken as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,


Glenn Leon Guerrero, General Manager


Jose Guevara, Financial Affairs Controller

Appendix C, continued



Felix P. Camacho
Governor of Guam

Michael W. Cruz
Lieutenant Governor

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1026 Cabras Highway, Suite 201
Piti, Guam 96925



Telephone: (671) 477-3931/35
(671) 477-2883/83
Facsimile: (671) 477-2680/1445
Webpage: www.portofguam.com

January 29, 2010

Ernst & Young LLP
231 Ypao Road
Suite 201, Ernst & Young Building
Tamuning, Guam 96913

We are providing this letter in connection with your audit of the federal award programs of the Port Authority of Guam (the Authority) as of and for the year ended September 30, 2009, which was performed in accordance with auditing standards generally accepted in the United States, the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We understand that obtaining representations from us concerning the information contained in this letter is a significant procedure and we understand that the purpose of your testing of transactions and records from the Authority's federal programs was to obtain reasonable assurance that the Authority had complied, in all material respects, with the compliance requirements that could have a direct and material effect on each of its major programs.

In connection with your audit, we confirm, to the best of our knowledge and belief, the following representations:

1. We have identified and disclosed to you the laws, regulations and provisions of contracts and grant agreements that could have a direct and material effect on each of the Authority's federal programs.
2. We have made available to you all documentation related to the compliance requirements for the federal programs, including contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies and pass-through entities related to federal programs.
3. We have made available to you all federal program financial records and related data, including information related to federal program financial reports and claims for advances and reimbursements.
4. We have provided to you our interpretations of any compliance requirements that have varying interpretations.
5. We have established and maintained effective internal control over compliance that provides reasonable assurance that federal awards are administered in compliance with the laws,

Appendix C, continued

regulations and provisions of contracts or grant agreements that could have a material effect on the federal programs. Internal control is functioning as intended.

6. We are responsible for complying, and we have complied in all material respects, with the requirements of Circular A-133 and with the laws, regulations and provisions of contracts and grant agreements related to each of the federal programs, except for those findings disclosed in the Schedule of Findings and Questioned Costs.
7. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal programs, including the results of other audits or program reviews.
8. The Schedule of Expenditures of Federal Awards is accurate and complete in all material respects, presents the information required by OMB Circular A-133, and includes all federal program expenditures made during the year ended September 30, 2009. We have identified in the schedule of expenditures of federal awards all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees and other noncash awards, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance.
9. Information presented in federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the Authority's financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. Amounts claimed or used for matching were determined in accordance with the applicable cost circulars and administrative requirements.
10. The copies of the Authority's federal program financial reports provided to you are true copies of the reports submitted or electronically transmitted to the federal agencies and pass-through entities.
11. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We have no knowledge of any fraud or suspected fraud affecting federal programs involving management or other employees who have a significant role in internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the federal programs. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the federal program.
12. The summary schedule of prior audit findings and the Data Collection Form are accurate and complete in all material respects and contain the information required by Circular A-133.
13. We have provided you with all information on the status of follow-up on prior audit findings by federal awarding agencies and pass-through entities, including management decisions.

Appendix C, continued

14. There has been no known noncompliance occurring subsequent to September 30, 2009, or events occurring subsequent to that date that would require adjustment to or disclosure in the Schedule of Expenditures of Federal Awards.

15. There have been no changes subsequent to September 30, 2009 in internal control over compliance or other factors that might significantly affect internal control, except for corrective action taken with regard to significant deficiencies as disclosed in the corrective action plan.

In connection with your audit, we also confirm, to the best of our knowledge and belief, the following representations related to the financial statement findings included in Part II of the Schedule of Findings and Questioned Costs:

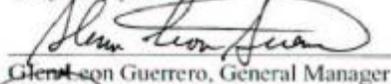
16. We have resolved any audit findings and recommendations directed to us and have a process to track their status.

17. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported.

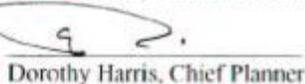
18. We have provided views on your reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.

We understand that your audit was made in accordance with auditing standards generally accepted in the United States, the Single Audit Act Amendments of 1996, OMB Circular A-133 and the standards for financial audits contained in *Government Auditing Standards*, and was, therefore, designed for the purpose of obtaining reasonable assurance about whether the schedule of expenditures of federal awards is presented fairly, in all material respects, in relation to the financial statements taken as a whole and whether the Authority had, in all material respects, administered each of its major federal programs in compliance with the laws, regulations and provisions of contracts or grant agreements, noncompliance with which could have a direct and material effect on the federal program. Accordingly, we understand that your tests of the accounting and federal program records and other auditing procedures were limited to those that you considered necessary for those purposes.

Very truly yours,


Glen Leon Guerrero, General Manager


Jose Guevara, Financial Affairs Controller


Dorothy Harris, Chief Planner