

February 26, 2014

The Board of Directors
Port Authority of Guam

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of Port Authority of Guam (the Authority) as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated February 26, 2014.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Authority is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated August 20, 2013. As described in that letter, the objectives of a financial statement audit conducted in accordance with the aforementioned standards are:

- To express an opinion on the whether the Authority’s basic financial statements and the accompanying supplementary information, in relation to the basic financial statements as a whole, for the year ending September 30, 2013, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America, and to perform specified procedures on the required supplementary information for the year ending September 30, 2013.
- To express an opinion on whether the supplementary information that accompanies the basic financial statements including the schedule of expenditures of federal awards, is presented fairly, in all material respects, in relation to the financial statements as a whole;
- To report on the Authority’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2013 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.
- To report on the Authority’s compliance with requirements applicable to each major program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (“OMB Circular A-133”).

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Authority's 2013 financial statements include management's estimate of the allowance for doubtful accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2013, there were no significant changes in accounting estimates or in management's judgments relating to such estimates, except for the acceleration of depreciation for an impaired gantry crane.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendices A and B to Attachment I, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

MATERIAL CORRECTED MISSTATEMENTS

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. These corrected misstatements are listed in Appendix C to Attachment I and are reflected in the 2013 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Authority's significant accounting policies are set forth in Note 1 to the Authority's 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which do not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, during the year ended September 30, 2013, debt issuance costs of \$116,000 which would have previously been capitalized, were expensed in the period incurred.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements but is of the opinion that Statement 68 will materially impact the Authority's financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE AUTHORITY

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that the Authority issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the Authority's 2013 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Authority's 2013 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2013.

SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Authority's management and staff and had unrestricted access to the Authority's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Authority's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Authority is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated February 26, 2014, on the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated February 26, 2014, involving the Authority's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

We have communicated to management and the Board of Directors, in separate letters dated February 26, 2014, certain significant deficiencies, deficiencies and other matters related to the Authority's internal control over financial reporting that we identified during our audit, including matters associated with the Authority's information technology environment.

This report is intended solely for the information and use of the Board of Directors, the management and the Office of Public Accountability - Guam 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.

Very truly yours,





PORT OF GUAM

ATURIDATI I PUETTON GUAHAN

Jose D. Leon Guerrero Commercial Port

1026 Cabras Highway, Suite 201, Piti, Guam 96925

Telephone: 671-477-5931/35 Facsimile: 671-477-2689/4445

Website: www.portguam.com

ATTACHMENT I



Eddie Baza Calvo
Governor of Guam

Ray Tenorio
Lieutenant Governor

February 26, 2014

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, Guam

We are providing this letter in connection with your audits of the statements of net position of the Port Authority of Guam (Authority), a component unit of the Government of Guam, as of September 30, 2013 and 2012, and the related statements of revenues, expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Authority in conformity with accounting principles generally accepted in the United States of America.

We confirm that we are responsible for the following:

- a. The fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP).
- b. The fair presentation of the required supplementary information including Management's Discussion and Analysis, accompanying the basic financial statements that is presented for the purpose of additional analysis of the financial statements.
- c. The design, implementation, and maintenance of programs and controls to prevent and detect fraud.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree with the recorded adjustments included in Appendix C.

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.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. Net position components (net investment in capital assets, restricted and unrestricted) are properly classified and approved.
 - b. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net position within operating revenues, non-operating revenues and expenses.
 - c. Capital assets are properly capitalized, reported and if applicable, depreciated.
 - d. Required supplementary information is measured and presented within prescribed guidelines.
 - e. Costs of federal awards have been charged in accordance with applicable cost principles.
2. The Authority has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Authority has made available to you all:
 - a. Financial records and related data
 - b. Minutes of the meetings of stockholders, directors, and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared dated as follows:

September 20, 2012	May 21, 2013
October 25, 2012	June 24, 2013
November 28, 2012	July 25, 2013
December 10, 2012	August 2, 2013
December 14, 2012	August 22, 2013
December 19, 2012	September 26, 2013
January 31, 2013	October 31, 2013
February 15, 2013	November 12, 2013
March 28, 2013	December 2, 2013
April 10, 2013	January 3, 2014
April 30, 2013	February 17, 2014 (board meeting agenda)
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
 - d. All Public Utilities Commission Orders impacting the Authority during the year and up to the report date.

4. There have (has) been no:
 - a. Action taken by Authority's management that contravenes the provisions of state laws and regulations or of contracts and grants applicable to Authority and for all funds administered by Authority
 - b. Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
6. We believe the effect of the uncorrected financial statement misstatement detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2012 taken as a whole. Such uncorrected misstatement has been attached as Appendix B.
7. We have completed our procedures to evaluate the accuracy and completeness of the disclosures in our financial statements. As a result of the evaluation process, we identified a disclosure that, although required by generally accepted accounting principles, has been omitted from our financial statements. The omitted disclosure that is regarded as more than clearly trivial is attached as Appendix D. We believe the effect of the omitted disclosure is quantitatively and qualitatively immaterial, both individually and in the aggregate, to the financial statements as a whole.
8. Management understands the risks of fraud and do not believe that the financial statements are materially misstated as a result of fraud.
9. We have no knowledge of any fraud or suspected fraud affecting the Authority involving:
 - a. Management
 - b. Employees who have significant roles in the Authority's internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, regulators, or others.
11. Significant assumptions used by us in making accounting estimates are reasonable.
12. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

Except where otherwise stated below, immaterial matters less than \$117,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

13. Except as disclosed in Appendices A & B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
14. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
15. Regarding related parties:
 - a. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements except as disclosed in Appendix D.
16. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
17. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency
 - b. Known actual or possible litigation and claims whose effects should be considered and accounted for and disclosed in the financial statements and that have not been disclosed to you.
18. The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in Note 5 to the financial statements.
19. The Authority has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
20. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with the requirements of the Governmental Accounting Standards Board.

- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
21. Regarding supplementary information:
 - a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
22. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. In addition, we have accurately completed the appropriate sections of the data collection form.
23. We are responsible for the compliance with local, state and federal laws, rules and regulations, including compliance with the requirements with U.S. OMB Circular A-133, and provisions of grants and contracts relating to Authority's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Authority is responsible for maintaining accounting and administrative controls over revenues, obligations, expenditures, assets and liabilities.
24. We are responsible for establishing and maintaining, and have established and maintained effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
25. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
26. We have:
 - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program.
 - b. Complied, in all material respects, with the requirements identified above in connection with federal awards.
 - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.

- d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
 - e. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
 - f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
 - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
27. We are responsible for follow-up on the prior-year findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
28. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Authority has been discovered.
29. We have disclosed to you that no change in the Authority's internal control over financial reporting has occurred during the Authority's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Authority's internal control over financial reporting.
30. We adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
31. We adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.


32. We adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which do not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
33. We adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, during the year ended September 30, 2013, debt issuance costs of \$116,000 which would have previously been capitalized, were expensed in the period incurred.
34. In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.
35. In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements but is of the opinion that Statement 68 will materially impact the Authority's financial statements.
36. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

37. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*, which requires a state or local government guarantor that offers a non-exchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.
38. The Authority is a defendant in various lawsuits and proceedings arising in the normal course of business. While the outcome of these lawsuits and proceedings cannot be predicted with certainty and could have a material adverse effect on the Authority's financial statements, it is the opinion of management, after consulting with its legal counsel, that the ultimate disposition of such suits and proceedings will not have a material adverse effect on the Authority's financial statements.
39. The Authority, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The financial statements referred to above reflect all adjustments required by GASB Statement 42.
40. The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes that the allowance is adequate to absorb currently estimated bad debts in the account balance.
41. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
42. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. Authority has not experienced any losses on such accounts and management believes it is not exposed to credit risk on its deposits.
43. At September 30, 2013, the Authority has \$11.7 million recorded in construction work-in-progress for the Port Modernization Plan. Realization of these assets is dependent on future events, including continuation of the Plan as currently envisioned. In 2013, \$2.6 million of the capitalized project costs were written-off to expense due to anticipated downscaling of the original Plan.
44. As of September 2013 and 2012, the Authority accrued \$700,000 representing its liability towards the AAICF funding based on its interpretation of the Public Law 31-74. The Authority understands that it is only required to transfer amounts to the AAICF when there is an operating surplus.
45. Management has assessed that the usage versus the cost associated to maintain gantry 3 crane far exceeds its actual hours of operation and performance activity and therefore, management recommends decommission of the crane. However, management has not determined when the asset will be surveyed out. No adjustment to estimated useful life of the asset has been made to the Authority's financial statements.
46. Management has assessed that the usage versus the cost associated to maintain harbor mobile crane far exceeds its actual hours of operation and performance activity and therefore, management plans to survey out the crane in fiscal year 2014. Adjustment to the estimated useful life of the asset has been made to the Authority's financial statements.


47. The Authority has assessed that it owes an estimated \$184,000 of merit bonuses to inactive and retired employees as required by Public Law 21-59.
48. Other than those described in note 10 to the financial statements, no events have occurred after September 30, 2013, and through the date of our signatures below, that require consideration as adjustments to or disclosures in the financial statements.





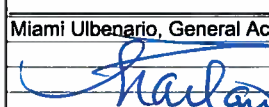
Joanne M.S. Brown, General Manager







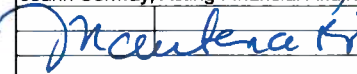
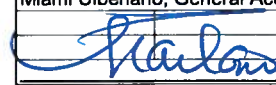
Maria D.R. Taitano, Deputy GM, Administration & Finance



Joann B. Conway, Acting Financial Affairs Controller

Port Authority of Guam Summary of Current Year Misstatements 30-Sep-13				APPENDIX A
Entry Description	Assets	Liabilities	Equity	Profit and Loss
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<i>To reverse CIP cost expensed but directly related to acquisition of POLA crane</i>				
Crane	110,085.41			
PAG Master Plan Consultants (Expense)				(110,085.41)
<i>To adjust sick leave</i>				
Accrued Sick Leave		45,405.39		
Sick Leave Expense				(45,405.39)
<i>To record accrued interest on loans</i>				
Interest expense				34,291.29
Accrued interest		(34,291.29)		
<i>To record additional write-off of Port Master Plan CIP cost</i>				
PAG Master Plan Expense				79,289.49
CIP	(79,289.49)			
<i>To record capitalized interest</i>				
CIP	294,000.00			
Interest expense				(294,000.00)
<i>To recognize revenue on grant advanced and recognize restricted net assets</i>				
Accrued grant		250,000.00		
Grant revenue				(250,000.00)
Net assets - unrestricted			250,000.00	
Net assets - restricted			(250,000.00)	
<i>To reclass current portion of annual leave</i>				
Annual leave non-current		149,680.00		
Annual leave current		(149,680.00)		
<i>Unrecorded fixed asset disposal</i>				
Accum. Depreciation – Crane Equipment	381,567.00			
Loss on Asset Disposal				98,433.00
Crane Equipment	(480,000.00)			
	226,362.92	261,114.10	0	(487,477.02)
Concurrence: The above misstatements have been provided and explained to me. I understand these misstatements and I believe they are considered to be immaterial to the financial statements taken as a whole. I also believe they did not result from fraud or illegal acts, rather errors.				
 Joann Conway, Acting Financial Affairs Controller				
 Miami Ulbenario, General Accounting Supervisor				
 Maria D.R. Taitano, Deputy GM, Administration & Finance				

Port Authority of Guam				APPENDIX B
Summary of Prior Year Misstatements Identified in Current Year				
30-Sep-13				
Entry Description	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Profit and Loss Dr (Cr)
To record disposal of FORD "F" SERIES TANKER	69,694.00			
Accum. Depreciation - Crane Equipment	(69,694.00)			
Crane Equipment				
	0	0	0	0
<p>Concurrence: The above misstatements have been provided and explained to me. I understand these misstatements and I believe they are considered to be immaterial to the financial statements taken as a whole. I also believe they did not result from fraud or illegal acts, rather errors.</p>				
 Joann Corway, Acting Financial Affairs Controller				
 Miami Ulbenario, General Accounting Supervisor				
 Maria D.R. Taitano, Deputy GM, Administration & Finance				

Port Authority of Guam		APPENDIX C	
Summary of Corrected Misstatements			
30-Sep-13			
Journal Entries - AJE			
#	Name	Debit	Credit
2 AJE To reclassify unreleased check payments			
50.1122.BOGIE	Bank of Guam-Interes	751,010.03	-
50.3111.TRAD	Accounts Payable Trad	-	751,010.03
		<u>751,010.03</u>	<u>751,010.03</u>
3 AJE To record wire transfer received for FY			
50.1124.CSBG	ANZ Guam, Inc.-Genera	59,393.25	-
50.1211.TRAD	Accounts Receivable-T	-	59,393.25
		<u>59,393.25</u>	<u>59,393.25</u>
4 AJE To adjust allowance for bad debts			
50.1212	Allow for Uncollectib	280,000.00	-
70.8512	Bad Debt Expense	-	280,000.00
		<u>280,000.00</u>	<u>280,000.00</u>
5 AJE To adjust Harbor Crane depreciation			
50.2020.CRAN	AccDeprec-Crane Equip	-	452,244.00
70.8400.CRAN	Depreciation-Cranes	452,244.00	-
		<u>452,244.00</u>	<u>452,244.00</u>
6 AJE To adjust difference based on PB reply			
50.3111.TRAD	Accounts Payable Trad	-	30,924.22
70.9220.MP	Federal Expense-Mast	30,924.22	-
		<u>30,924.22</u>	<u>30,924.22</u>
7 AJE To adjust invoices from Matson			
50.3111.OTHE	Accounts Payable Othe	-	63,015.18
70.8385	Parts	63,015.18	-
		<u>63,015.18</u>	<u>63,015.18</u>
8 AJE To reverse costs overaccrual based on % of completion			
50.1622.MPCIF	Master Plan 08 CIPs	-	60,861.75
50.3111.OTHE	Accounts Payable Othe	91,785.75	-
70.9220.MP	Federal Expense-Mast	-	30,924.00
		<u>91,785.75</u>	<u>91,785.75</u>
9 AJE To adjust revenue based on reply - Hanson			
50.1211.TRAD	Accounts Receivable-T	60,358.74	-
60.6112.FIXED	SPACE RENTAL-FIXED R	-	60,358.74
		<u>60,358.74</u>	<u>60,358.74</u>
I have reviewed the adjustments and reclassifications above and authorized that they be recorded in the general ledger as of September 30, 2013. The adjustments are results of errors and not results of fraud or illegal acts.			
 Joann Conway, Acting Financial Affairs Controller			
 Miami Ulbenario, General Accounting Supervisor			
 Maria D.R. Taitano, Deputy GM, Administration & Finance			

Port Authority of Guam
 Summary of Passed Disclosure
 30-Sep-13


APPENDIX D

Footnote Title	Description of Omitted or Unclear Disclosure	Dollar Amount of Omitted or Unclear Disclosure (if applicable)	Explanation of Nature of Misstatement
Related party disclosure	Related party transactions not disclosed	\$ 30,775	Transactions with one of the BOD member's family business and not disclosed

Concurrence: The above passed disclosure item have been provided and explained to me. I understand the nature of this omitted disclosure and I believe they are considered to be immaterial to the financial statements taken as a whole. I also believe they did not result from fraud or illegal acts, rather errors.



 Joann Conway, Acting Financial Affairs Controller



 Miami Ulbenario, General Accounting Supervisor



 Maria D.R. Taitano, Deputy GM, Administration & Finance