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January 29, 2016

The Board of Directors
Port Authority of Guam
1026 Cabras Highway, Suite 201
Piti, Guam 96925

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, 2015, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated January 29, 2016.

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 September 18, 2015. 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 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 ended September 30, 2015 (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") and perform specified procedures on the required supplementary information for the year ended September 30, 2015.
- Express an opinion on whether the supplementary information that accompanies the 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.
- 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, 2015, based on an audit of financial statements performed in accordance with generally accepted auditing standards.
- Express an opinion on the Authority's compliance with requirements applicable to each major program and report on the Authority's 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 Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Authority's 2015 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, management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets, and management's estimate of allocation of shared consultant costs relating to Port Modernization Plan, which is based on the ratio of actual costs by projects to overall project costs. During the year ended September 30, 2015, there were no significant changes in accounting estimates or in management's judgments relating to such estimates.

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 Appendix A to Attachment I, a summary of uncorrected misstatements, and as Appendix C to Attachment I, a summary of disclosure items passed 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 B to Attachment I and are reflected in the 2015 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Authority's significant accounting policies are set forth in Note 1 to the Authority's 2015 financial statements. During the year ended September 30, 2015, 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. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits through plans administered through trusts. The implementation of these statements had a material effect on the accompanying financial statements resulting in the restatement of the Authority's fiscal year 2014 financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. Net position as of October 1, 2013 was decreased by \$44,265,334 to \$27,060,307 reflecting the cumulative retrospective effect of the adoption of GASB Statement No. 68. Net pension liability of \$44,444,980, and deferred inflows of resources and deferred outflows of resources of \$2,656,510 and \$4,062,777, respectively, were reported at September 30, 2014. The Authority recognized aggregate pension expense of \$2,836,155 for the year ended September 30, 2014 and net position as of September 30, 2014 was decreased by \$43,038,713 to \$31,615,184 as a result of the adoption of GASB Statement No. 68. .
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the Authority's financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the Authority's financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has not evaluated the impact that the implementation of this statement will have on the Authority's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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 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 2015 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 2015 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 2015.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

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 January 29, 2016, 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 January 29, 2016, 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 also dated January 29, 2016, certain 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,





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ATTACHMENT I

Eddie Baza Calvo
Governor of Guam
Ray Tenorio
Lieutenant Governor

January 29, 2016

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, Guam 96913

We are providing this letter in connection with your audits of the financial statements of Port Authority of Guam (the Authority), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2015 and 2014, 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 for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net position, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the financial statements of net position in conformity with GAAP.
- b. The design, implementation, and maintenance of internal control:
 - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - To prevent and detect fraud.
- c. 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 draft financial statements and related notes was a matter of convenience rather than one of necessity. We have reviewed the draft financial statement preparation assistance provided by you and acknowledge that the draft 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 B.

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, if applicable, approved.
- b. Deposits and investment securities are properly classified in the category of custodial credit risk.
- c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
- d. Required supplementary information is measured and presented within prescribed guidelines.
- e. Applicable laws and regulations are followed in adopting, approving, and amending budgets.

2. The Authority has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

2. The Authority has made available to you:

- a. All 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.
- b. All financial records and related data for all financial transactions of the Authority and for all funds administered by the Authority. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Authority and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
- 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.

3. There has been no:

- a. Action taken by Authority's management that contravenes the provisions of federal laws and Guam laws and regulations or of contracts and grants applicable to the Authority.
- b. Communications with other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

4. 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.

5. 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 GAAP, has been omitted from our financial statements. The omitted disclosure that is regarded as more than clearly trivial is attached as Appendix C. 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.
6. The Authority has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you our understanding about the risks of fraud in the Authority and do not believe that the financial statements are materially misstated as a result of fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Authority involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others, where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. We are responsible for the preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* ("OMB Circular A-133"). We have identified and disclosed all of the Authority's government programs and related activities subject to the OMB Circular A-133 compliance audit. In addition, we have accurately completed the appropriate sections of the data collection form.
12. We are responsible for compliance with local and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133 and OMB Uniform Grant Guidance, and the provisions of grants and contracts relating to the 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.
13. 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 federal

statutes, regulations, and the terms and conditions of the federal awards that could have a material effect on its federal programs.

14. 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.
15. No events have occurred subsequent to September 30, 2015 that require consideration as adjustments to or disclosures in the Schedule of Expenditures of Federal Awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.
16. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2015.
17. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by the Authority with regard to significant deficiencies and material weaknesses in internal control over compliance, subsequent to September 30, 2015.
18. Federal awards expenditures have been charged in accordance with applicable cost principles.
19. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the Uniform Grant Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.
20. We have disclosed all contracts or other agreements with service organizations.
21. We have disclosed to you all communications from service organizations relating to noncompliance with the requirements of federal statutes, regulations, and terms and conditions of federal awards at those organizations.
22. We have:
 - a. Identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major federal program under audit.
 - b. Complied, in all material respects, with the direct and material compliance 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 federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program 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 all known noncompliance with the direct and material compliance requirements of federal awards, including the results of other audits, program reviews, or any communications from federal awarding agencies and pass-through entities concerning possible noncompliance 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.
23. We are responsible for follow-up on all prior-years findings. We have prepared a summary schedule of prior-year findings by federal awarding agency and pass-through entity, including all management decisions, to report the status of our efforts in implementation of the prior-year's corrective action plan. The summary schedule of prior audit findings includes all findings required to be included in accordance with OMB Circular A-133.
24. 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.
25. No organizations were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

Except where otherwise stated below, immaterial matters less than \$126,600 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.

26. Except as listed in Appendix A and Appendix C, there are no transactions that have not been properly recorded and reflected in the financial statements.
27. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
28. Regarding related parties:
- a. We have disclosed to you the identity of the Authority'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.
29. 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 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.
30. There are no:
- a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements
 - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.
31. 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.
32. The Authority has complied with all aspects of contractual agreements that may affect the financial statements.
33. No department of the Authority has reported a material instance of noncompliance to us.
34. 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.
35. Regarding supplementary information:
- a. We are responsible for the preparation and 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.
36. We adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*,

which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits through plans that are administered through trusts. The implementation of these statements had a material effect on the accompanying financial statements resulting in the restatement of the Authority's fiscal year 2014 financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. Net position as of October 1, 2013 was decreased by \$44,265,334 to \$27,060,307 reflecting the cumulative retrospective effect of the adoption of GASB Statement No. 68. Net pension liability of \$44,444,980, and deferred inflows of resources and deferred outflows of resources of \$2,656,510 and \$4,062,777, respectively, were reported at September 30, 2014. The Authority recognized aggregate pension expense of \$2,836,155 for the year ended September 30, 2014 and net position as of September 30, 2014 was decreased by \$43,038,713 to \$31,615,184 as a result of the adoption of GASB Statement No. 68. Refer to Note 4 to the financial statements for more information regarding the Authority's pensions.

37. We adopted the provisions of GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
38. In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.
39. In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the Authority's financial statements.
40. In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years

beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the Authority's financial statements.

41. In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has not evaluated the impact that the implementation of this statement will have on the Authority's financial statements.
42. In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
43. In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
44. 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.
45. 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.
46. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
47. 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.
48. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.


49. 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.
50. Pursuant to the Merchant Marine Act of 1936 and P.L. 110-417 Section 3512, the Port Authority of Guam entered into a Memorandum of Agreement with the Maritime Administration (MARAD), as the lead federal agency to implement and administer the Port of Guam Improvement Enterprise Program in accordance with the Port Master Plan Update 2007. Projects involved the facilitation of the modernization, expansion and transformation of the Jose D. Leon Guerrero Commercial Port. A dashboard project expenditure summary was turned over to the Authority in fiscal year 2015, which was used as the basis for recording the \$48,200,000 in noncash awards in the Schedule of Expenditures of Federal Awards. The Authority is expecting to receive the close-out documents and changes in amounts utilized, if any, will be accounted for prospectively in the Schedule of Expenditures of Federal Awards. The Authority did not receive any funds under the program and no funds were passed through to the Authority, no procurement activities under the program were performed, and no payments to vendors with program funds were processed and reviewed by the Authority.
51. The Authority segregated the construction funded by the \$50,000,000 USDOD appropriation into three phases. As of September 30, 2015, all three phases have been completed and capitalized with a total cost of \$54,000,000; \$48,200,000 of which came from the USDOD appropriation and \$5,800,000 relates to consultants' charges. A dashboard project expenditure summary was provided to the Authority by MARAD and was used as the basis of recording \$48,200,000 of capital assets. The Authority expects to receive the close-out documents from MARAD and changes in such expenditure details, if any, will be accounted for prospectively in the financial statements.
52. At September 2014, the Authority had accrued \$700,000 representing its estimated 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. In 2015, the accrual was reversed and recognized as other operating income.
53. The Authority has assessed that it owes an estimated \$54,000 of merit bonuses to inactive and retired employees as required by Public Law 21-59 as of September 30, 2015.
54. Management has assessed that the usage versus the cost associated to maintain the Gantry 3 crane exceeds its actual hours of operation and performance activity. Management has hired a third party consultant to assess the structural stability of the crane to determine whether the asset will be surveyed. No adjustment to the estimated useful life of the asset has been made to the Authority's financial statements. Gantry 3 has a net book value of \$2,700,000 at September 30, 2015.
55. We have disclosed to you all additions or changes to the existing pension.
56. We believe that the actuarial assumptions and methods used to measure pension and postretirement liabilities and costs for financial accounting purposes are appropriate in the circumstances.
57. We agree with the findings of management's expert contracted by the GovGuam Retirement Fund for the actuarial evaluation of the Government of Guam's retirement plan

and have adequately considered the qualifications of management's expert in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to management's expert with respect to values or amounts derived in an attempt to bias his or her work, and we are not aware of any matters that have affected the independence or objectivity of management's expert.

- 58. We have no intention of terminating our participation in the Government of Guam Retirement plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our pension plans to which we contribute.
- 59. We believe that the actuarial assumptions and methods used to measure postretirement liabilities and costs for financial accounting purposes are appropriate in the circumstances. These amounts have been appropriately recognized and displayed as assets, liabilities and, where applicable, net position and changes in net position in the financial statements in accordance with GASB 68.
- 60. We confirm that the Authority did not enter into related-party transactions during and as of September 30, 2015.
- 61. The Authority has obligated, expended, received, and used public funds of the Government of Guam and Federal Government in accordance with the purpose for which such funds have been appropriated or otherwise authorized by Guam or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by Guam or federal law
- 62. Money or similar assets handled by the Authority on behalf of the Government of Guam or Federal Government have been properly and legally administered, and the accounting and record keeping related thereto is proper, accurate, and in accordance with law.
- 63. No events have occurred after September 30, 2015, but before January 29, 2016, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.



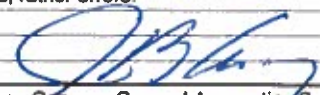
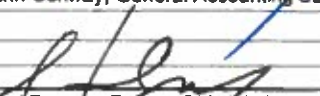
 Joanne M.S. Brown, General Manager

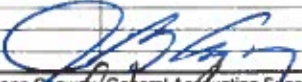
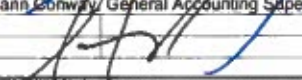


 Alfred Duenas, Deputy GM, Administration & Finance



 Joann B. Conway, General Accounting Supervisor

Port Authority of Guam				APPENDIX A
Summary of Current Year Misstatements				
30-Sep-15				
Entry Description	Assets	Liabilities	Equity	Profit and Loss
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<i>To record capitalized interest</i>				
CIP	203,000.00			
Interest expense				(203,000.00)
<i>To reverse open purchase orders</i>				
AP others	48,280.43			
Expense				(48,280.43)
<i>To record accrued interest expense</i>				
Interest expense				21,735.09
Bank of Guam - TDOA	10,171.61			
Accrued interest		(31,906.70)		
	261,452.04	(31,906.70)	-	(229,545.34)
<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>				
				
<p>Joann Conway, General Accounting Supervisor</p>				
				
<p>Alfred Duenas, Deputy GM, Administration & Finance</p>				

Port Authority of Guam Summary of Corrected Misstatements 30-Sep-15		APPENDIX B	
Journal Entries - AJE			
Name	Debit	Credit	
1 AJE Unrecorded cash receipt			
Bank of Guam-Interes	82,853.00	-	
Accounts Receivable-T	-	82,853.00	
	82,853.00	82,853.00	
2 AJE To adjust deferred income from MARAD project			
DOD \$50M Modernizali	-	3,183,636.00	
Deferred Revenues-DOD	3,183,636.00	-	
	3,183,636.00	3,183,636.00	
3 AJE To correct GASB 68 restatement			
Prior Period Adjustm	-	884,065.28	
Deferred inflow of resources	-	1,908,573.47	
Deferred outflow of resources	388,976.92	-	
Pension expense for reclass	2,403,661.83	-	
	2,792,638.75	2,792,638.75	
4 AJE To adjust allowance for bad debts			
Allow for Uncollectib	70,000.00	-	
Bad Debt Expense	-	70,000.00	
	70,000.00	70,000.00	
5 AJE To reclassify completed MARAD projects from CIP			
Buildings-Original	3,569,733.00	-	
DOD-\$50M Modernizali	-	3,569,733.00	
	3,569,733.00	3,569,733.00	
6 AJE To book bag deferred accounts-GASB68			
Prior Period Adjustm	-	1,406,266.98	
Deferred inflow of resources	-	2,656,509.53	
Deferred outflow of resources	4,062,776.51	-	
	4,062,776.51	4,062,776.51	
7 AJE To adjust AR from Hanson			
Accounts Receivable-T	125,255.54	-	
Deferred Revenues	-	125,255.54	
	125,255.54	125,255.54	
8 AJE To reclass pension expense among diff divisions			
Unfunded retirement	66,872.01	-	
Unfunded retirement	90,480.67	-	
Unfunded retirement	231,314.03	-	
Unfunded retirement	27,319.07	-	
Unfunded retirement	7,907.19	-	
Unfunded retirement	62,160.82	-	
Unfunded retirement	12,454.48	-	
Unfunded retirement	50,619.40	-	
Unfunded retirement	27,510.04	-	
Unfunded retirement	290,851.67	-	
Unfunded retirement	207,601.26	-	
Unfunded retirement	75,978.67	-	
Unfunded retirement	117,609.34	-	
Unfunded retirement	208,787.14	-	
Unfunded retirement	18,886.00	-	
Unfunded retirement	48,696.79	-	
Unfunded retirement	15,528.47	-	
Unfunded retirement	93,618.00	-	
Unfunded retirement	68,259.54	-	
Unfunded retirement	63,608.65	-	
Unfunded retirement	64,970.32	-	
Unfunded retirement	6,840.01	-	
Unfunded retirement	64,366.85	-	
Unfunded retirement	20,708.53	-	
Unfunded retirement	52,690.41	-	
Unfunded retirement	25,969.86	-	
Unfunded retirement	6,844.65	-	
Unfunded retirement	23,851.43	-	
Unfunded retirement	24,892.83	-	
Unfunded retirement	45,337.88	-	
Unfunded retirement	22,126.16	-	
Unfunded retirement	41,704.21	-	
Unfunded retirement	45,569.71	-	
Unfunded retirement	45,359.82	-	
Unfunded retirement	21,521.22	-	
Unfunded retirement	32,271.66	-	
Unfunded retirement	42,574.32	-	
Pension expense for reclass	-	2,403,661.83	
Unfunded retirement	29,998.72	-	
	2,403,661.83	2,403,661.83	
I have reviewed the adjustments and reclassifications above and authorized that they be recorded in the general ledger as of September 30, 2015. The adjustments are results of errors and not results of fraud or illegal acts.			
 Joann Conway, General Accounting Supervisor			
 Alfred Duenas, Deputy GM, Administration & Finance			

Port Authority of Guam
 Summary of Passed Disclosure
 30-Sep-15

APPENDIX C

Footnote Title	Description of Omitted or Unclear Disclosure	Dollar Amount of Omitted or Unclear Disclosure (if applicable)	Authoritative Literature Reference	Explanation of Nature of Misstatement
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Property, plant and equipment	Capitalized interest not disclosed	\$ 203,000	GASB 62	The Authority does not capitalize interest on non-federal CIP
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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, General Accounting Supervisor



Alfred Duenas, Deputy GM, Administration & Finance