

January 26, 2012

The Board of Directors
Attention: Mr. Daniel J. Tydingco
Port Authority of Guam
Cabras Highway
Piti, Guam 96925

We have performed an audit of the financial statements of Port Authority of Guam (the Authority), a component unit of the Government of Guam, as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued our report thereon dated January 26, 2012.

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

REQUIRED COMMUNICATIONS

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

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

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

Auditors' Responsibilities under US GAAS, continued

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

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

The Adoption of, or a Change in Significant Accounting Policies

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

There were no changes in the Authority's significant accounting policies during the year ended September 30, 2011. The Authority continues to apply its accounting policies in an appropriate manner and is disposed toward high quality financial reporting and application of accounting policies.

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

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

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

Sensitive Accounting Estimates

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

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

Management's judgment is called upon in:

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

Significant Audit Adjustments

During our audit, several post-closing entries were recorded while we were conducting our fieldwork (see Appendix A – *Post-Closing Journal Entries*).

We also proposed adjusting journal entries, which the Authority subsequently agreed to be reflected in the financial statements. Certain reclassifying journal entries have also been made to make the financial statements for the years ended September 30, 2011 and 2010 comparative (see Appendix B – *Adjusting and Reclassifying Journal Entries*).

Uncorrected Misstatements Considered by Management to be Immaterial

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

Other Information in Documents Containing the Audited Financial Statements

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

Consultation with Other Accountants

There were no consultations with other accountants during the audit.

Disagreements with Management on Financial Accounting and Reporting Matters

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

Major Issues Discussed with Management Prior to Retention

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

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

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

Serious Difficulties Encountered in Dealing with Management in Performing the Audit

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

Fraud and Illegal Acts

We are not aware of any matters that require communication. Furthermore, the Authority's management has represented to us that they were not aware of any fraud or illegal acts for the period from October 1, 2010 to January 26, 2012 (see Appendix D – *Management's Representation Letter*).

Significant Deficiencies and Material Weaknesses in Internal Control

We have identified several deficiencies in internal control during the course of our audit which have been included in our separately issued Management Letter dated January 26, 2012.

Independence

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

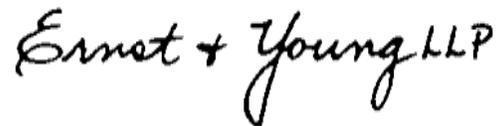
We confirm that we are independent with respect to the Authority within the meaning of the applicable published rules and pronouncements, its interpretations and rulings.

The completion of our audit of the Authority's financial statements as of and for the year ended September 30, 2011 was accomplished through the effective support and assistance of the Authority's finance, operational and administrative personnel.

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

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

Very truly yours,

A handwritten signature in black ink that reads "Ernst + Young LLP". The signature is written in a cursive, flowing style.

Appendix

A – Post-closing Journal Entries

B – Adjusting and Reclassifying Journal Entries

C – Summary of Uncorrected Misstatements

D – Management’s Representation Letter

Appendix A

Port Authority of Guam
 Year End: September 30, 2011
 Post Closing Journal Entries
 Date: 10/1/2010 To 9/30/2011
 Account No: CAJE 01 To CAJE 01

CAJE

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
Net Income (Loss) Before Adjustments							2,517,490		
CAJE 01	9/30/2011	PAG/Shell Manager's	70.8844	CAJE 01	20,543				
CAJE 01	9/30/2011	Maintenance-PAG Shell	70.8361 SHELL	CAJE 01		20,543			
To reclassify expense to the proper account					20,543	20,543	(2,517,490)	0	
					20,543	20,543	2,517,490	0	

Appendix B

Port Authority of Guam

PAJE

Year End: September 30, 2011
Proposed Adjusting Journal Entries (Audit)
Date: 10/1/2010 To 9/30/2011
Account No: PAJE 01 To PAJE 08

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
Net Income (Loss) Before Adjustments							2,293,321		
PAJE 01	9/30/2011	Prior Period Adjustm	4711	T0100		1,380			
PAJE 01	9/30/2011	Miscellaneous Income	60.9112	T0100	1,380				
To correct and tie up the beginning balance of net assets per books with the 2010 audited balance.					1,380	1,380	2,291,941	(1,380)	
PAJE 02	9/30/2011	Accounts Payable Trad	3111.TRADE	C0110		519,118			
PAJE 02	9/30/2011	Bank of Guam-Interest	1122.BOGBC	C0110	519,118				
To reverse the outstanding checks that are unreleased as of September 30, 2011.					519,118	519,118	2,291,941	0	
PAJE 03	9/30/2011	Accrued Payroll	3320	C0130		47,590			
PAJE 03	9/30/2011	Citizens SB-Payroll	1124.CSBPAY	C0130	47,590				
To reverse outstanding payroll checks that are unreleased as of September 30, 2011.					47,590	47,590	2,291,941	0	
PAJE 04	9/30/2011	Allow for Uncollectib	1212	E0111		79,537			
PAJE 04	9/30/2011	Bad Debt Expense	70.8512	E0111	79,537				
To provide a 100% allowance on receivables related to disputed balances from Sun Bay Inc., Ambyth, and CTSI.					79,537	79,537	2,212,404	(79,537)	
PAJE 05	9/30/2011	Miscellaneous Income	60.9112	A6-0810		400,000			
PAJE 05	9/30/2011	Accounts Payable Other	3111.OTHERS	A6-0810	400,000				
To reverse the accrual made in FY2010 for Guam YTK dispute.					400,000	400,000	2,612,404	400,000	
PAJE 06	9/30/2011	Accrued Sick Leave(DC)-	2613	P0710		35,191			
PAJE 06	9/30/2011	Sick Leave Taken	101.8143	P0710		869			
PAJE 06	9/30/2011	Sick Leave Taken	121.8143	P0710		1,889			
PAJE 06	9/30/2011	Sick Leave Taken	122.8143	P0710		4,821			
PAJE 06	9/30/2011	Sick Leave Taken	123.8143	P0710		679			
PAJE 06	9/30/2011	Sick Leave Taken	140.8143	P0710		11			
PAJE 06	9/30/2011	Sick Leave Taken	145.8143	P0710		1,362			
PAJE 06	9/30/2011	Sick Leave Taken	150.8143	P0710		498			
PAJE 06	9/30/2011	Sick Leave Taken	300.8143	P0710		1,042			
PAJE 06	9/30/2011	Sick Leave Taken	310.8143	P0710		1,087			
PAJE 06	9/30/2011	Sick Leave Taken	312.8143	P0710		3,616			
PAJE 06	9/30/2011	Sick Leave Taken	313.8143	P0710		538			
PAJE 06	9/30/2011	Sick Leave Taken	320.8143	P0710		2,861			
PAJE 06	9/30/2011	Sick Leave Taken	330.8143	P0710		992			
PAJE 06	9/30/2011	Sick Leave Taken	331.8143	P0710		415			
PAJE 06	9/30/2011	Sick Leave Taken	332.8143	P0710		1,964			
PAJE 06	9/30/2011	Sick Leave Taken	333.8143	P0710		172			
PAJE 06	9/30/2011	Sick Leave Taken	400.8143	P0710		123			
PAJE 06	9/30/2011	Sick Leave Taken	411.8143	P0710		1,475			
PAJE 06	9/30/2011	Sick Leave Taken	412.8143	P0710		1,182			
PAJE 06	9/30/2011	Sick Leave Taken	413.8143	P0710		767			
PAJE 06	9/30/2011	Sick Leave Taken	414.8143	P0710		1,056			
PAJE 06	9/30/2011	Sick Leave Taken	421.8143	P0710		1,390			
PAJE 06	9/30/2011	Sick Leave Taken	422.8143	P0710		190			
PAJE 06	9/30/2011	Sick Leave Taken	423.8143	P0710		531			
PAJE 06	9/30/2011	Sick Leave Taken	430.8143	P0710		377			
PAJE 06	9/30/2011	Sick Leave Taken	810.8143	P0710		26			
PAJE 06	9/30/2011	Sick Leave Taken	820.8143	P0710		655			
PAJE 06	9/30/2011	Sick Leave Taken	831.8143	P0710		18			
PAJE 06	9/30/2011	Sick Leave Taken	832.8143	P0710		162			
PAJE 06	9/30/2011	Sick Leave Taken	850.8143	P0710		827			
PAJE 06	9/30/2011	Sick Leave Taken	870.8143	P0710		180			
PAJE 06	9/30/2011	Sick Leave Taken	875.8143	P0710		2,062			
PAJE 06	9/30/2011	Sick Leave Taken	881.8143	P0710		451			
PAJE 06	9/30/2011	Sick Leave Taken	885.8143	P0710		1,109			
To correct the sick leave accrual.					35,191	35,191	2,577,213	(35,191)	

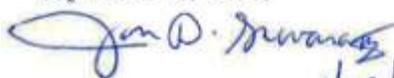
Appendix B, continued

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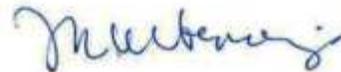
Port Authority of Guam
Year End: September 30, 2011
Proposed Adjusting Journal Entries (Audit)
Date: 10/1/2010 To 9/30/2011
Account No: PAJE 01 To PAJE 08

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
PAJE 07	9/30/2011	Accrued interest expense	EY002	M0120		17,279			
PAJE 07	9/30/2011	USDA LN-3.5M Grant L	70.3213, GL3.5M	M0120	17,279				
		To accrue interest expense for the month of September 2011.			17,279	17,279	2,577,219	0	
PAJE 08	9/30/2011	Crane Equip	2010.CRANE	K0411B		63,005			
PAJE 08	9/30/2011	AccDeprec-Crane Equip	2020.CRANE	K0411B	3,282				
PAJE 08	9/30/2011	Depreciation-Cranes	70.8400.CRANE	K0411B		3,282			
PAJE 08	9/30/2011	Outside Labor	70.8385.OUTSOLBR	K0411B	63,005				
		To adjust the balance of the capitalized corrosion C/P based on the delamination made by Matson on capitalizable amounts.			66,287	66,287	2,517,490	(68,723)	
					1,166,382	1,166,382	2,517,490	224,169	

We reviewed the above proposed adjusting entries by the auditors and we are in agreement that these are to be presented in the audited financial statements as of and for the year ended September 30, 2011:


Jose B. Guevara III 1/23/12
Financial Affairs Controller
Date:


Joann Conway 1/23/12
General Accounting Supervisor
Date:

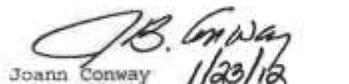

Miami Uberiano
General Accounting Supervisor
Date: 1/28/12

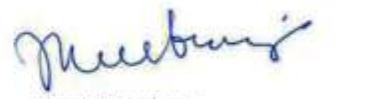
Appendix B, continued

Port Authority of Guam								PRJE
Year End: September 30, 2011								
Proposed Reclassifying Journal Entries (Audit)								
Date: 10/1/2010 To 9/30/2011								
Account No: PRJE 01 To PRJE 05								
Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence
PRJE 01	9/30/2011	Miscellaneous Income	60.9112			18,557		
PRJE 01	9/30/2011	Depreciation-Other E	70.8400.OTHER				18,557	
To correct the Authority's entry to adjust depreciation expense as a result of the transfer of freepumps from FOE to Others in FY2011.								
PRJE 02	9/30/2011	LT-ANZ (USDA) Loan Pa	3811	M0120		144,144		
PRJE 02	9/30/2011	Long-Term Debt - Current Portion	EY0001	M0120			144,144	
To reclassify the current portion of long term debt to current liabilities.								
PRJE 03	9/30/2011	Prepaid Expenses	1241.OTHR	N0120		109,708		
PRJE 03	9/30/2011	Accounts Payable Trad	3111.TRADE	N0120			109,708	
To properly classify as an asset the credit adjustments provided by GWA for overpayments in prior fiscal years.								
PRJE 04	9/30/2011	Miscellaneous Income	60.9112			24,393		
PRJE 04	9/30/2011	Bad Debt Expense	70.8512				24,393	
To properly reclassify the Authority's adjustment to allowance to doubtful account to expense.								
PRJE 05	9/30/2011	Miscellaneous Income	60.9112	UB0210		436,982		
PRJE 05	9/30/2011	Diesel Supplies	330.8526	UB0210		21,607		
PRJE 05	9/30/2011	LEASE INCOME-GEDA	80.6113.GEDA	UB0210			460,289	
To properly reclassify adjustments related to the Authority's lease revenues to the appropriate revenue account.								
						787,091	787,091	
Net Income (Loss)			2,817,490					

We reviewed the above proposed reclassifying entries by the auditors and we are in agreement that these are to be presented in the audited financial statements as of and for the year ended September 30, 2011:


Jose B. Guevara III 1/23/12
Financial Affairs Controller
Date:


Joann Conway 1/23/12
General Accounting Supervisor
Date:

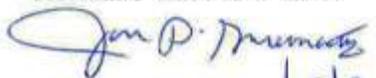

Miami Uberiano
General Accounting Supervisor
Date: 1/26/12

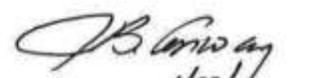
Appendix C

Port Authority of Guam								SAD
Year End: September 30, 2011								
SAD								
Date: 10/1/2010 To 9/30/2011								
Account No: SAD 01 To SAD 07								
Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence
SAD 01	9/30/2011	AccDeprec-Furnishings	2020.FOE		K0500	21,905		
SAD 01	9/30/2011	Depreciation-Furnish	70.8400.FOE		K0500		21,905	
To correct the depreciation expense on the 40 ton AC units based on the date the unit was accepted by PAG.								
SAD 02	9/30/2011	Allow for Uncollectib	1252		E0120		10,512	
SAD 02	9/30/2011	Bad Debt Expense	70.8512		E0120	10,512		
To adjust the balance of allowance for bad debt based on PAG's policy.								
SAD 03	9/30/2011	AccDeprec-Furnishings	2020.FOE		K0500		5,168	
SAD 03	9/30/2011	Depreciation-Furnish	70.8400.FOE		K0500	5,168		
To correct the entry made by the Company that included a negative accumulated depreciation balance that still remains as part of item number 2180 (K0500)								
SAD 04	9/30/2011	Power	70.8322		VD0620	70,209		
SAD 04	9/30/2011	Accounts Payable Othe	3111.OTHERS		VD0620		70,209	
To accrue the portion of power expense in the October billing related to FY2011 based on reading dates.								
SAD 05	9/30/2011	Miscellaneous Income	60.9112		UB0210		18,742	
SAD 05	9/30/2011	Fed Reim-EDA	60.9219.EDA		UB0210	18,742		
To correct the entry made by the Authority relating to Task Order #27 expenses not reimbursable by the EDA Federal award.								
SAD 06	9/30/2011	Accrued Vacation Pay-	3530		P0810		10,861	
SAD 06	9/30/2011	Accrued Vacation Pay-	3632		P0810	10,861		
To properly allocate the current and non current portions of annual leave.								
SAD 07	9/30/2011	Accounts Receivable-O	1221.OTHERS		N0210	5,028		
SAD 07	9/30/2011	Accounts Payable Othe	3111.OTHERS		N0210		82,581	
SAD 07	9/30/2011	PAG Master Plan Cons	70.8658.GMP		N0210	82,581		
SAD 07	9/30/2011	Fed Reim-OEA Mod. Fa	60.9219.OSAMFF		N0210		5,028	
To properly accrue invoices related to the Port Modernization Plan based on the accrual worksheet provided by Parsons Brinckerhoff.								
						206,056	206,056	

Net Income (Loss) 2,394,953

We reviewed the above unrecorded misstatements (Summary of Audit Differences or SAD) and we believe that the effect of the above SAD items, accumulated by the auditors during the audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole:


Jose B. Guevara III 1/23/12
Financial Affairs Controller
Date:


Joann Conway 1/23/12
General Accounting Supervisor
Date:


Miami Uberiano
General Accounting Supervisor
Date: 1/23/12



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Eddie Baza Calvo
Governor of Guam
Ray Tenorio
Lieutenant Governor

January 26, 2012

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

In connection with your audit of the financial statements of the Port Authority of Guam (the Authority) as of September 30, 2011 and 2010, and for the periods then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Port Authority of Guam in conformity with US generally accepted accounting principles.

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

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

Management's responsibilities

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

We have made available to your representatives all financial records and related data. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Uncorrected misstatements

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Appendix D, continued

Internal control

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

We have communicated to you all significant deficiencies in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2011.

Minutes and contracts

The dates of meetings of shareholders, directors, committees of directors and important management committees are as follows:

Regular meeting of the board of directors	January 20, 2011
Regular meeting of the board of directors	March 4, 2011
Regular meeting of the board of directors	April 7, 2011
Special meeting of the board of directors	April 28, 2011
Special meeting of the board of directors	May 4, 2011
Regular meeting of the board of directors	May 26, 2011
Regular meeting of the board of directors	June 23, 2011
Regular meeting of the board of directors	July 28, 2011
Regular meeting of the board of directors	August 25, 2011
Regular meeting of the board of directors	September 22 & 29, 2011
Regular meeting of the board of directors	October 27, 2011
Special meeting of the board of directors	November 4, 2011

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

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

Risks and uncertainties

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

Ownership and pledging of assets

Except for properties capitalized under capital leases, the Authority has satisfactory title to all assets appearing in the balance sheets. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged except as disclosed in the financial statements. All assets to which the Authority has satisfactory title appear in the balance sheets.

Appendix D, continued

Receivables and revenues

Receivables represent valid claims against the debtors indicated and do not include amounts for goods shipped or services provided subsequent to the balance sheet dates, goods shipped on consignment, or other types of arrangements not constituting sales. All revenue recognized as of the balance sheet dates has been realized (or is realizable) and earned. Revenue has not been recognized before (1) persuasive evidence of an arrangement exists, (2) goods have been delivered or services rendered, (3) consideration to be received is fixed or determinable and (4) collectability is reasonably assured.

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

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

We have disclosed to you all sales terms (both expressed and implied), including all rights of return or price adjustments and warranty provisions. We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers, including distributors and resellers.

Inventories

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

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

Adequate provision has been made for losses under firm purchase commitments for goods or inventory. There have been no reductions of the selling prices of finished goods subsequent to September 30, 2011 and none are contemplated.

Long-lived assets to be held and used

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Events of default under debt agreements

No events of default have occurred with respect to any of the Authority's debt agreements.

Appendix D, continued

Contingent liabilities

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

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

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

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

Oral or written guarantees

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

Fraud

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

Independence

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

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

Conflicts of interest

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

Appendix D, continued

Subsequent events

Subsequent to September 30, 2011, no events or transactions have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Authority's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, results of operations or cash flows of the Authority.

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

Very truly yours,



Pedro A. Leon Guerrero, Jr.
General Manager



Jose B. Guevara III
Financial Affairs Controller

Appendix D, continued



PORT OF GUAM
ATUUD:AT I PUHTON GUAFAN
Jose D. Leon Guerrero Commercial Port
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Telephone:671-477-5931/35 Facsimile:671-477-2689/4445
website: www.portguam.com



Eddie Baza Calvo
Governor of Guam
Ray Tenorio
Lieutenant Governor

January 26, 2012

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

We are providing this letter in connection with your audit of the federal award programs of the Port Authority of Guam as of and for the year ended September 30, 2011, which was performed in accordance with auditing standards generally accepted in the United States, the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We understand that obtaining representations from us concerning the information contained in this letter is a significant procedure and we understand that the purpose of your testing of transactions and records from the Port Authority of Guam's federal programs was to obtain reasonable assurance that the Port Authority of Guam had complied, in all material respects, with the compliance requirements that could have a direct and material effect on each of its major programs.

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

1. We acknowledge our responsibility for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs. We are responsible for complying with the requirements of OMB Circular A-133.
2. We have identified and disclosed to you the requirements laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each of the Port Authority of Guam's federal programs.
3. We have made available to you all contracts and grant agreements (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 related to federal programs.
4. We have made available to you 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.
5. We have provided to you our interpretations of any applicable compliance requirements that are subject to varying interpretations.

Appendix D, continued

6. We acknowledge our responsibility for and have established and maintained effective internal control over compliance that provides reasonable assurance that federal awards are managed in compliance with the laws, regulations and the provisions of contracts or grant agreements that could have a material effect on the federal programs. Internal control is functioning as intended.
7. We have complied in all material respects, with the requirements of Circular A-133 and with the laws, regulations and provisions of contracts and grant agreements related to each of the federal programs, except for those findings disclosed in the Schedule of Findings and Questioned Costs and/or otherwise disclosed to you.
8. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal programs, including the results of other audits or program reviews.
9. We acknowledge our responsibility for preparation of the Schedule of Expenditures of Federal Awards ("the schedule"). The form and content of the schedule is in accordance with Circular A-133 Section 310.b. The methods of measurement or presentation have not changed from those used in the prior period and there are no significant assumptions underlying the measurement or presentation of the schedule.
10. We acknowledge that it is our responsibility for understanding and complying with the compliance requirements related to the preparation of the schedule. We have identified all of our government programs and related activities subject to OMB Circular A-133 and have included in the schedule all expenditures made during the period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees and other noncash awards, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other direct assistance. The schedule is accurate and complete in all material respects, presents the information required by OMB Circular A-133, and includes all federal program expenditures made during the year ended September 30, 2011.
11. We have charged costs to federal awards in accordance with applicable cost principles.
12. Information presented in federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the Port Authority of Guam's financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. Amounts claimed or used for matching were determined in accordance with the applicable cost circulars and administrative requirements.
13. The copies of the Port Authority of Guam's federal program financial reports provided to you are true copies of the reports submitted or electronically transmitted to the federal agencies and pass-through entities.
14. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We have no knowledge of any fraud or suspected fraud affecting federal programs involving management or other employees who have a significant role in internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the federal programs. We have disclosed to you all allegations of financial improprieties, including

Appendix D, continued

fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”) where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the federal program.

15. The summary schedule of prior audit findings and the Data Collection Form are accurate and complete in all material respects and contain the information required by Circular A-133.
16. We have provided you with all information on the status of follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
17. We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of this letter.
18. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the year ended September 30, 2011 to the date of this letter.
19. We have disclosed to you all known noncompliance with direct and material compliance requirements occurring subsequent to the year ended September 30, 2011.
20. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the year ended September 30, 2011.
21. We have disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the year ended September 30, 2011.

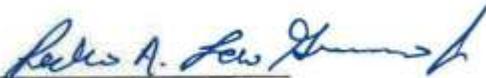
In connection with your audit, we also confirm, to the best of our knowledge and belief, the following representations related to any findings included in the Schedule of Findings and Questioned Costs:

22. We are responsible for taking corrective action on audit findings of the compliance audit.
23. We have resolved any audit findings and recommendations directed to us and have a process to track their status.
24. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported.
25. We have provided views on your reported findings, conclusions and recommendations, as well as management’s planned corrective actions, for the report.

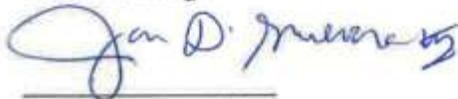
Appendix D, continued

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

Very truly yours,



Pedro A. Leon Guerrero, Jr.
General Manager



Jose B. Guevara III
Financial Affairs Controller



Dorothy Harris
Chief Planner