

Port Authority of Guam

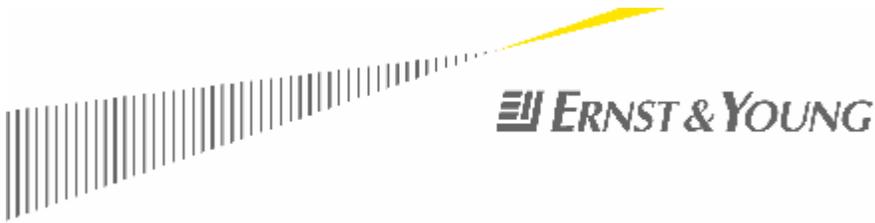
Financial statement audit results
and communications

Report to the Finance Committee and Board
of Directors of the Port Authority of Guam

September 30, 2010

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December 30, 2010

Members of the Finance Committee and Board of Directors of the Port Authority of Guam

Dear Members of the Finance Committee and Board of Directors:

We are pleased to present the results of our audit of the financial statements for the year ended September 30, 2010 of the Port Authority of Guam (the Authority) 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 December 30, 2010.

Statement on Auditing Standards No. 114, *"The Auditor's Communication With Those Charged With Governance"*, and other professional standards require the auditor to provide those charged with governance with additional information regarding the scope and results of the audit that may assist those charged with governance in overseeing management's financial reporting and disclosure processes.

This report to the Members of the Finance Committee and Board of Directors summarizes our audit, the scope of our engagement, and key observations and findings from our audit procedures. The document also contains the communications required by our professional standards to the Members of the Finance Committee and Board of Directors.

The audit was designed to express an opinion on the financial statement for the year ended September 30, 2010. In accordance with professional standards, we obtained a sufficient understanding of internal control to plan the audit and to determine the nature, timing, and extent of tests to be performed. However, we were not engaged to and we did not perform an audit of internal control over financial reporting.

As required by Statement on Auditing Standards No. 114, we are bound to restrict the use of this report to those familiar with the financial operations and systems used to produce the financial statement. This report is, accordingly, intended solely for the information and use of the members of the Finance Committee, Board of Directors, the Office of Public Accountability of 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.

We appreciate this opportunity to meet with you 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".

Statement on Auditing Standards (SAS) No. 114 communications

Auditors' responsibilities under generally accepted auditing standards (GAAS)

The financial statement is the responsibility of 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. However, as is typical for government entities and as allowed under GAAS, we were not engaged to and we did not perform an audit of internal control over financial reporting, i.e., an internal control audit.

Significant accounting policies

We determined that the Finance Committee and the Board of Directors are 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, 2010, other than new accounting pronouncements which were adopted by the Authority. 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.

Auditors' judgments about the quality of 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.

Management's judgments and 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 judgments and accounting estimates, continued

Management's judgment is called upon in:

1. 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.
2. Determining the adequacy of the recorded valuation of receivables and inventories, including the need for any reserve.
3. Determining the adequacy of contingency provision on pending litigations, claims and assessments.
4. Determining assumptions utilized in measuring pension and other employee-related reserves and related costs for financial accounting purposes.

Methods of accounting for significant unusual transactions and for controversial or emerging areas

There were no transactions during the year for which the accounting is in a controversial or emerging area.

Audit adjustments

We are required to inform the members of the Finance Committee and Board of Directors about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the financial statement.

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, 2010 and 2009 comparative (see *Appendix B - Adjusting and Reclassifying Journal Entries*).

Unadjusted audit differences considered by management to be immaterial

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

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, 2009 to December 30, 2010 (see *Appendix D - Management's Representation Letter*).

Material weaknesses in internal control

We noted no material weaknesses in internal control; however, as described in the management letter dated December 30, 2010, we noted a deficiency in internal control relating to the current capitalization policy of the Authority and other matters. We also noted technology general control deficiencies which are described in a separate letter dated December 30, 2010.

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.

Serious difficulties encountered in performing the audit

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

Consultation with other accountants

During the course of our audit, we made consultations within the Ernst & Young practice leaders in the Far East and Americas regarding industry practices on capitalization of certain expenditures.

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.

Independence

We are bound by professional standards as far as independence is concerned. We are not aware of any relationships between Ernst & Young and the Port Authority of Guam that, in our judgment in accordance with professional standards, may reasonably be thought to bear on our independence.

Appendix A

Post closing entries

Port Authority of Guam
 Year End: September 30, 2010
 Post Closing Journal Entries
 Date: 10/1/2009 To 9/30/2010
 Account No: CAJE01 To CAJE09

Prepared by	Reviewed by
BHP 12/23/2010	JVK 12/23/2010

CAJE

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
Net Income (Loss) Before Adjustments							7,403,654		
CAJE01	9/30/2010	Miscellaneous Income	60.9112			54,000			
CAJE01	9/30/2010	Miscellaneous Income	60.9112		36,164				
CAJE01	9/30/2010	Mechanics' Salary	70.8361			14,386			
CAJE01	9/30/2010	Mechanics' Salary	70.8361		54,000				
CAJE01	9/30/2010	Mechanics' Salary	70.8361			8,826			
CAJE01	9/30/2010	Mechanics' Frings Ba	70.8362			14,207			
CAJE01	9/30/2010	Mechanics' Frings Ba	70.8362		48,446				
CAJE01	9/30/2010	Mechanics' Overtime	70.8364			13,322			
CAJE01	9/30/2010	Mechanics' Overtime	70.8364		61,825				
CAJE01	9/30/2010	Bank of Guam-Interest	1122.BOGIBC			147,903			
CAJE01	9/30/2010	Bank of Guam-Interest	1122.BOGIBC			15,869			
CAJE01	9/30/2010	Citibank - Savings A	1135.CITISA		147,903				
CAJE01	9/30/2010	Accounts Payable Othe	3111.OTHERS		14,366				
CAJE01	9/30/2010	Accounts Payable Othe	3111.OTHERS			110,271			
CAJE01	9/30/2010	Citizens SB-Savings	1124.CSBSAVMM		15,869				
To take up post TB entries booked by the client.					378,503	378,503	7,307,749	(95,905)	
CAJE02	9/30/2010	Miscellaneous Income	60.9112			220			
CAJE02	9/30/2010	Security Deposits - M	3391.MARINA		220				
To take up post TB entries booked by the client.					220	220	7,307,969	220	
CAJE03	9/30/2010	Claims-Cargo Shortag	70.8516		500				
CAJE03	9/30/2010	Accounts Payable Othe	3111.OTHERS			500			
To take up post TB entries booked by the client.					500	500	7,307,469	(500)	
CAJE04	9/30/2010	RTG-E Upgrade/Repair	1621.RTGE			25,303			
CAJE04	9/30/2010	Crane Equip	2010.CRANE		110,399				
CAJE04	9/30/2010	Crane Equip	2010.CRANE		50,731				
CAJE04	9/30/2010	Buildings-Wharf Impio	2005.BLDWHF		16,929				
CAJE04	9/30/2010	Gantry3 Trolley Roll	1621.G3WHEEL			4,688			
CAJE04	9/30/2010	Gantry3 Ana.Eng./Di	1621.ENGTLNUP			110,399			
CAJE04	9/30/2010	Gantry3 Main Hoist W	1621.G3MANNST			17,039			
CAJE04	9/30/2010	Gantry 3 Spreader	1621.G3SPREAD			3,498			
CAJE04	9/30/2010	Area X Pavement Repa	1621.PAVAREAX			16,929			
To take up post TB entries booked by the client.					178,659	178,659	7,307,469	0	
CAJE05	9/30/2010	AccDeprec-Furnishings	2020.FOE		3				
CAJE05	9/30/2010	AccDeprec-Shop Equip	2020.SHOP		3				
CAJE05	9/30/2010	AccDeprec-Other Equip	2020.OTHER		4				
CAJE05	9/30/2010	AccDeprec-Generator S	2020.GENSET		2				
CAJE05	9/30/2010	Depreciation-Furnish	70.8400.FOE			3			
CAJE05	9/30/2010	AccDeprec-Vehicles &	2020.VEHICLE		1				
CAJE05	9/30/2010	Depreciation-Shop Eq	70.8400.SHOP			3			
CAJE05	9/30/2010	Depreciation-Other E	70.8400.OTHER			4			
CAJE05	9/30/2010	Depreciation-Generat	70.8400.GENSET			2			
CAJE05	9/30/2010	Depreciation-Vehicle	70.8400.VEHICLE			1			
To take up post TB entries booked by the client.					13	13	7,307,482	13	
CAJE06	9/30/2010	Loss on Asset Dispos	70.9312			126,572			
CAJE06	9/30/2010	Shorepower Project-W	1621.SHIPWRWHF		133,005				
CAJE06	9/30/2010	Depreciation-Buildn	70.8400.BLDWHF			4,433			
To take up post TB entries booked by the client.					133,005	133,005	7,440,487	133,005	
CAJE07	9/30/2010	Loss on Asset Dispos	70.9312		4,107				
CAJE07	9/30/2010	AccDeprec-Furnishings	2020.FOE		6,186				
CAJE07	9/30/2010	Depreciation-Furnish	70.8400.FOE			10,293			
To take up post TB entries booked									

Port Authority of Guam
 Year End: September 30, 2010
 Post Closing Journal Entries
 Date: 10/1/2009 To 9/30/2010
 Account No: CAJE01 To CAJE09

Prepared by	Reviewed by
HPP 12/23/2010	JVK 12/23/2010

CAJE-1

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
		by the client.			10,295	10,295	7,445,573	6,166	
CAJE08	9/30/2010	AccDeprec-Vehicles &	2000.VEHICLE		15,433				
CAJE08	9/30/2010	Depreciation-Vehicle	70.8400.VEHICLE			15,433			
		To correct the entry made on accumulated depreciation for vehicles.			15,433	15,433	7,462,106	15,433	
CAJE09	9/30/2010	Claims-Legal Settle	70.8517		400,000				
CAJE09	9/30/2010	Accounts Payable Othe	3111.OTHERS			400,000			
		To take up post TB entries booked by the client.			400,000	400,000	7,062,106	(400,000)	
					1,116,116	1,116,116	7,062,106	(341,648)	

Appendix B

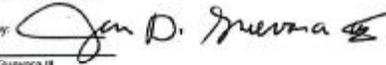
Adjusting and reclassification entries

Port Authority of Guam
 Year End: September 30, 2010
 Proposed Adjusting Journal Entries (Audit)
 Date: 10/1/2009 To 9/30/2010
 Account No: PAJE01 To PAJE07

Prepared by: RMP
 12/23/2010
 Reviewed by: JVK
 12/23/2010
 PAJE

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence	
Net Income (Loss) Before Adjustments							8,124,095.00			
PAJE01	9/30/2010	Accrued Payroll	3320	C0130 PP	261,217.00					
PAJE01	9/30/2010	Citizens SB-General	1124.CSBGEN	C0130 PP		-261,217.00				
To reverse the bank reconciling item relating to payroll dated 10/01/2010.					261,217.00	-261,217.00	8,124,095.00	0.00		
PAJE02	9/30/2010	Miscellaneous Income	60.9112	N0200/VD0510		-189,953.00				
PAJE02	9/30/2010	Water	70.8321	N0200/VD0510		-88,834.00				
PAJE02	9/30/2010	Master Plan 08 CIPs	1022.MPCIP	N0200/VD0510	149,511.00					
PAJE02	9/30/2010	Accounts Payable Othe	3111.OTHERS	N0200/VD0510	178,787.00					
PAJE02	9/30/2010	Accounts Payable Othe	3111.OTHERS	N0200/VD0510		-149,511.00				
To reverse PY AJE14 which accrued invoices disputed by PAG as portion of the invoices paid and credited in FY2010.					328,298.00	-328,298.00	8,302,892.00	178,787.00		
PAJE03	9/30/2010	Prior Period Adjustm	4711	T0100	4,414.00					
PAJE03	9/30/2010	Miscellaneous Income	60.9112	T0100		-4,414.00				
To correct and file up the beginning balance of net assets per books with the 2008 audited balance.					4,414.00	-4,414.00	8,307,256.00	4,414.00		
PAJE04	9/30/2010	Accounts Payable Othe	3111.OTHERS	NE000		-55,773.00				
PAJE04	9/30/2010	Legal Counsel-GENERA	70.8666.GENERAL	NE000	55,773.00					
To correct the reversal of FY2009 accrual of legal fees.					55,773.00	-55,773.00	8,261,523.00	(55,773.00)		
PAJE05	9/30/2010	Allow for Uncollectib	1212	E0120		-103,986.00				
PAJE05	9/30/2010	Bad Debt Expense	70.8512	E0120	103,986.00					
To provide 100% allowance on disputed Norton Lilly invoices and others.					103,986.00	-103,986.00	8,147,557.00	(103,986.00)		
PAJE06	9/30/2010	Gantry3 Electrical U	1021.GSELECT	K0411B		-367,880.00				
PAJE06	9/30/2010	Gantry3 Corrosion Ma	1021.GCORROSN	K0411B		-300,345.00				
PAJE06	9/30/2010	Outside Labor	70.8385.OUTSLBR	K0411B	778,225.00					
To reclassy repairs and maintenance on Gantry 3 from CIP to expense.					778,225.00	-778,225.00	7,369,332.00	(778,225.00)		
PAJE07	9/30/2010	Master Plan 08 CIPs	1022.MPCIP	K0412		-482,226.00				
PAJE07	9/30/2010	Other Professional Services	600.8668.OTHER	K0412	444,347.00					
PAJE07	9/30/2010	Travel expenses	600.8675	K0412	37,879.00					
To reclass task orders from CIP to the proper expense account.					482,226.00	-482,226.00	6,887,106.00	(482,226.00)		
							2,014,115.00	-2,014,115.00	6,887,106.00	(1,235,989.00)

We are in agreement with the above adjusting journal entries that the auditors have recommended and they have been posted in the Company's general ledger, as of and for the year ended September 30, 2010.

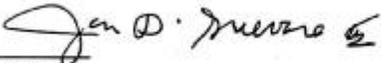
Signed by: 
 Jose B. Guevara II
 Financial Affairs Controller

Port Authority of Guam
 Year End: September 30, 2010
 Proposed Reclassifying Journal Entries (Audit)
 Date: 10/1/2009 To 9/30/2010
 Account No: PRJE01 To PRJE02

Prepared by RNP Reviewed by JVK RJE
 12/23/2010 12/23/2010

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence
PRJE01	9/30/2010	Accrued Vacation Pay-	3330	P0610			-73,090.00	
PRJE01	9/30/2010	Accrued Vacation Pay-	3612	P0610		73,090.00		
To reclassify accrued vacation from noncurrent to current.								
PRJE02	9/30/2010	Furnishings & Office	2010.FOE	K0200			-519,585.00	
PRJE02	9/30/2010	AccDeprec-Furnishings	2020.FOE	K0200		18,557.00		
PRJE02	9/30/2010	Other Equip	2010.OTHER	K0200		519,585.00		
PRJE02	9/30/2010	AccDeprec-Other Equip	2020.OTHER	K0200			-18,557.00	
To reclassify the fire pumps from Furniture and Office Equipment to Other Equipment.								
						611,232.00	-611,232.00	

We are in agreement with the above reclassifying journal entries that the auditors have recommended and they have been posted in the Company's general ledger, as of and for the year ended September 30, 2010.

Signed by: 
 Jose B. Guevara III
 Financial Affairs Controller

Appendix C

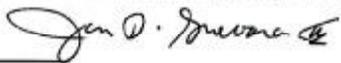
Summary of unrecorded audit differences

Port Authority of Guam
Year End: September 30, 2010
Summary of Audit Differences
Date: 10/1/2009 To 9/30/2010

Prepared by **RNP** Reviewed by **JVK** **SAD**
12/23/2010 12/23/2010

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence
SAD01	9/30/2010	Accrued Sick Lve(DC)-	3613	P0710			-16,796.00	
SAD01	9/30/2010	Miscellaneous Expens	60.9212	P0710		16,796.00		
<p>To record additional accrual of sick leave liability based on the "termination payment method" calculation 16 - Accounting for Compensated Absences.</p>								
SAD02	9/30/2010	Miscellaneous Expens	60.9212	N0121		56,466.00		
SAD02	9/30/2010	Accounts Payable Othe	3111.OTHERS	N0121			-56,466.00	
<p>To record the unaccounted difference between the amount confirmed by PB Americas, Inc. and the a by the Authority.</p>								
SAD03	9/30/2010	Accounts Receivable-T	1211.TRADE	E0111			-14,747.00	
SAD03	9/30/2010	LEASE INCOME-GEDA	60.6113.GEDA	E0111		14,747.00		
<p>To record lease income based on the amount confirmed by the customer.</p>								
						88,011.00	-88,011.00	

We believe that the effects of the foregoing unrecorded audit differences, accumulated by the auditors during the current year audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statement taken as a whole.

Signed by: 
Jose B. Guevara III
Financial Affairs Controller

Appendix D

Management representation letters



Felix P. Camacho
Governor of Guam

Michael W. Cruz
Lieutenant Governor

PORT AUTHORITY OF GUAM
ATURIDAT I PUETTON GUAHAN
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December 30, 2010

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Tamuning, Guam 96913

In connection with your audit(s) of the financial statements of the Port Authority of Guam (the Authority) as of September 30, 2010 and for year then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the 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 net assets, the related statements of revenues, expenses and changes in net assets 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.

Unrecorded audit differences

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

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.

Minutes and contracts

The dates of meetings of the board of directors from the beginning of the period covered by the financial statements to the date of this letter are as follows:

Regular meeting of the board of directors	October 22, 2009
Regular meeting of the board of directors	November 19, 2009
Regular meeting of the board of directors	December 17, 2009
Regular meeting of the board of directors	January 28, 2010
Regular meeting of the board of directors	February 25, 2010
Regular meeting of the board of directors	March 25, 2010
Regular meeting of the board of directors	April 29, 2010
Regular meeting of the board of directors	May 20, 2010
Regular meeting of the board of directors	June 17, 2010
Special meeting of the board of directors	July 1, 2010
Regular meeting of the board of directors	August 19, 2010
Regular meeting of the board of directors	September 15, 2010
Regular meeting of the board of directors	October 28, 2010
Regular meeting of the board of directors	November 23, 2010

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

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

Risks and uncertainties

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

Ownership and pledging of assets

The Authority has satisfactory title to all assets appearing in the balance 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. All assets to which the Authority has satisfactory title appear in the balance sheets.

Receivables and revenues

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

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

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

We have made available to you all significant contracts, communication and other relevant information pertaining to arrangements with our customers.

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 inventories issued.

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, 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.

Contingent liabilities

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

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

Contingent liabilities, continued

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, other than those accrued and disclosed in the financial statements, nor are there any accruals for loss contingencies included in the balance sheet 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 Port Authority of Guam's policy.

Subsequent events

Subsequent to September 30, 2010, no events or transactions have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Authority's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, results of operations or cash flows of the Authority.

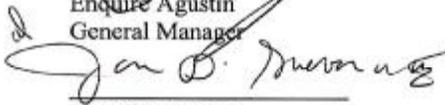
We understand that your audit was conducted in accordance with auditing standards generally accepted in the United States as established by the American Institute of Certified Public

Accountants and was, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of the Authority taken as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,



Enrique Agustin
General Manager



Jose Guevara III
Financial Affairs Controller



Felix P. Camacho
Governor of Guam

Michael W. Cruz
Lieutenant Governor

PORT AUTHORITY OF GUAM
ATURIDAT I PUETTON GUAHAN
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December 30, 2010

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

We are providing this letter in connection with your audit of the federal award programs of the Port Authority of Guam (the Authority) as of and for the year ended September 30, 2010, 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 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 have identified and disclosed to you the laws, regulations and provisions of contracts and grant agreements that could have a direct and material effect on each of Authority's federal programs.
2. We have made available to you all documentation related to the compliance requirements for the federal programs, including contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies and pass-through entities related to federal programs.
3. We have made available to you all federal program financial records and related data, including information related to federal program financial reports and claims for advances and reimbursements.
4. We have provided to you our interpretations of any compliance requirements that have varying interpretations.

5. We have established and maintained effective internal control over compliance that provides reasonable assurance that federal awards are administered in compliance with the laws, regulations and provisions of contracts or grant agreements that could have a material effect on the federal programs. Internal control is functioning as intended.
6. We are responsible for complying, and we have complied in all material respects, with the requirements of Circular A-133 and with the laws, regulations and provisions of contracts and grant agreements related to each of the federal programs, except for those findings disclosed in the Schedule of Findings and Questioned Costs.
7. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal programs, including the results of other audits or program reviews.
8. 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.
9. 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, 2010.
10. We have charged costs to federal awards in accordance with applicable cost principles.
11. Information presented in federal program financial reports and claims for advances and reimbursements are supported by the books and records from which Authority's financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. Amounts claimed or used for matching were determined in accordance with the applicable cost circulars and administrative requirements.
12. The copies of Authority's federal program financial reports provided to you are true copies of the reports submitted or electronically transmitted to the federal agencies and pass-through entities.

13. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We have no knowledge of any fraud or suspected fraud affecting federal programs involving management or other employees who have a significant role in internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the federal programs. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the federal program.
14. 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.
15. We have provided you with all information on the status of follow-up on prior audit findings by federal awarding agencies and pass-through entities, including management decisions.
16. There has been no known noncompliance occurring subsequent to September 30, 2010, or events occurring subsequent to that date that would require adjustment to or disclosure in the Schedule of Expenditures of Federal Awards.
17. There have been no changes subsequent to September 30, 2010 in internal control over compliance or other factors that might significantly affect internal control, except for corrective action taken with regard to significant deficiencies as disclosed in the corrective action plan.

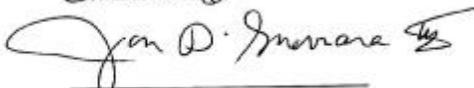
In connection with your audit, we also confirm, to the best of our knowledge and belief, the following representations related to any findings included in the Schedule of Findings and Questioned Costs:

18. We have resolved any audit findings and recommendations directed to us and have a process to track their status.
19. 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.
20. We have provided views on your reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.

We understand that your audit was made in accordance with auditing standards generally accepted in the United States, the Single Audit Act Amendments of 1996, OMB Circular A-133 and the standards for financial audits contained in *Government Auditing Standards*, and was, therefore, designed for the purpose of obtaining reasonable assurance about whether the schedule of expenditures of federal awards is presented fairly, in all material respects, in relation to the financial statements taken as a whole and whether the 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,


Enrique Agustin
General Manager


Jose Guevara III
Financial Affairs Controller


Dorothy Harris
Chief Planner

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

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