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May 3, 2019

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, 2018, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated May 3, 2019.

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.

This report is intended solely for the information and use of the Board of Directors, 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,

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

cc: To Management of Port Authority of Guam

## **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 December 31, 2018. 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, 2018 (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, 2018.
- 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, 2018, 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 *Title 2 U.S. Code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance").

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 2018 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; management's estimate of the net pension liability, deferred outflows and inflows of resources related to pension which is based on an actuarial report issued by the Government of Guam Retirement Fund; and management's estimate of the other post-employment benefits (OPEB) liability, deferred outflows and inflows of resources related to OPEB, which is based on an actuarial report issued by the Government of Guam Department of Administration. During the year ended September 30, 2018, there were no significant changes in accounting estimates or in management's judgments relating to such estimates other than the effect of adopting Governmental Accounting Standards Board (GASB) Statement No. 75 on other post-employment benefits related estimates as stated below.

## **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 that we presented to management during the current audit engagement 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 2018 financial statements.

## **SIGNIFICANT ACCOUNTING POLICIES**

The Authority's significant accounting policies are set forth in Note 1 to the Authority's 2018 financial statements. During the year ended September 30, 2018, 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. 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 implementation of this statement had a material effect on the financial statements resulting in the restatement of the Authority's fiscal year 2017 financial statements to reflect the reporting of the OPEB liability, deferred inflows of resources and deferred outflows of resources for its OPEB plan and the recognition of OPEB expense in accordance with the provisions of GASB Statement No. 75.

## **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

Except for GASB Statement No. 75, the implementation of these statements did not have a material effect on the Authority's financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

We have evaluated the significant qualitative aspects of the Authority’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

**OTHER INFORMATION IN THE ANNUAL REPORTS OF THE AUTHORITY**

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that the Authority issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the Authority’s 2018 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 2018 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 2018.

**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.

**OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgement, such discussions or correspondence did not involve significant findings or issues requiring communication to the Board of Directors.

The Board of Directors  
Port Authority of Guam  
May 3, 2019

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**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. In addition, 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.

**EMPHASIS OF MATTERS**

As discussed in note 8 to the financial statements, the Authority is a defendant in a claim filed by a former tenant (Guam YTK Corporation or YTK) of the Port. The dispute was submitted to arbitration and in April 2016, the Arbitrators issued a decision in favor of YTK and awarded YTK approximately \$14 million plus interest. In December 2016, the Superior Court of Guam denied the Authority's motion to vacate the Arbitration Award and granted YTK's Motion to Confirm the Award. In January 2018, the Authority filed a Motion to Dismiss in the Supreme Court of Guam. The matter is pending decision/opinion of the Supreme Court of Guam. No provision has been recorded in the accompanying financial statements pending final resolution of this matter.

As discussed in Note 1 to the financial statements, in 2018, the Authority adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The Authority has elected to restate its 2017 financial statements to reflect the adoption of this standard.

Our opinion is not modified with respect to these matters.

**CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated May 3, 2019, 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 May 3, 2019, involving the Authority's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Uniform Guidance.

We have communicated to management, in separate letters also dated May 3, 2019, certain 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.

\* \* \* \* \*



**PORT OF GUAM**  
**ATURIDATI PUETTON GUAHAN**  
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## ATTACHMENT I

Lourdes A. Leon Guerrero  
Governor of Guam  
Joshua F. Tenorio  
Lieutenant Governor

May 3, 2019

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, 2018 and 2017, 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, results of operations, changes in net position, and cash flows of the Authority in accordance 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, revenues, expenses, changes in net position and cash flows 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 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.
3. The Authority has made available to you:
  - a. All minutes of the meetings of Board 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 to the report date.
4. 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.

5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
6. 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*, except for the YTK litigation as disclosed in Note 9 to the financial statements.
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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance"). We have identified and disclosed all of the Authority's government programs and related activities subject to the OMB Uniform Guidance compliance audit. In addition, we have accurately completed the appropriate sections of the data collection form.
12. We are responsible for compliance with local, state, and federal laws, rules and regulations, including compliance with the requirements of OMB Uniform 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, 2018 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, 2018.
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, 2018.
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:
  - 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.
21. We are responsible for follow-up on all prior-year findings. We have prepared a summary schedule of prior-year findings by federal awarding agencies and pass-through entities, 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 Uniform Guidance.
  22. We are responsible for taking corrective action on audit findings and have developed a corrective action plan that meets the requirements of OMB Uniform Guidance. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.
  23. 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.
  24. 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 \$194,600 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.

25. Except as listed in Appendix A, there are no transactions that have not been properly recorded and reflected in the financial statements.
26. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
27. 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.

28. 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.
29. There are no:
  - a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements except as disclosed in the Schedule of Findings and Questioned Costs.
  - 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, except for the YTK litigation as disclosed in Note 9 to the financial statements.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.
30. 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.
31. The Authority has complied with all aspects of contractual agreements that may affect the financial statements.
32. No department of the Authority or agency of the Federal Government or Government of Guam has reported a material instance of noncompliance to us.
33. 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.
34. 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.

35. We adopted the provisions of GASB 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 implementation of this statement had a material effect on the financial statements resulting in the restatement of the Authority's fiscal year 2017 financial statements to reflect the reporting of OPEB liability, deferred inflows of resources and deferred outflows of resources and the recognition of OPEB in accordance with the provisions of GASB Statement No. 75.
36. We adopted the provisions of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this statement did not have a material effect on the Authority's financial statements.
37. We adopted the provisions of GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The implementation of this statement did not have a material effect on the Authority's financial statements.
38. We adopted the provisions of GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The implementation of this statement did not have a material effect on the Authority's financial statements.
39. In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
40. In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
41. In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

42. In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
43. In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
44. In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
45. 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.
46. 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.
47. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
48. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
49. Except for the remaining service life used to amortize change in proportionate share for the Defined Benefit Plan and the non-inclusion of the Defined Contribution Plan’s FY2016 change in proportionate share in the 2018 actuarial report, we agree with the findings of management’s expert contracted by the Government of Guam 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. The effect of differences in calculation of change in proportion is recognized in the 2018 financial statements.

50. We have disclosed to you all additions or changes to the existing pension plan.
51. Except for the remaining service life used to amortize change in proportionate share for Defined Benefit Plan and the non-inclusion of Define Contribution Plan's FY2016 change in proportionate share from the 2018 actuarial report, 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. These amounts have been appropriately recognized and displayed as assets, liabilities, deferred inflows, deferred outflows, net position and changes in net position in the financial statements in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB 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*.
52. Except for the contributions amount used by the actuary, we agree with the findings of management's expert contracted by the Government of Guam Department of Administration for the actuarial evaluation of the Government of Guam's other post-employment benefits 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. The effect of differences in contributions amount is recognized in the 2018 financial statements.
53. Except for the contributions amount used by the actuary, we believe that the actuarial assumptions and methods used to measure other post-employment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances. These amounts have been appropriately recognized and displayed as assets, liabilities, deferred inflows, deferred outflows, net position and changes in net position in the financial statements in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.
54. 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.
55. The Authority has determined whether a capital asset has been impaired in accordance with GASB Codification Section 1400.180 – 1400.200, *Impairment of Capital Assets*. In making this determination, the Authority considered the following factors:
  - a. The magnitude of the decline in service utility is significant
  - b. The decline in service utility is unexpected.

56. The Authority assessed the estimated useful life of three gantry cranes and determined it is still appropriate.
57. The Authority is engaged in litigation with Guam YTK Corporation (YTK), a former tenant, involving a lease agreement dated December 14, 2001. In 2016, the case was submitted to arbitration as required by the terms of the lease agreement and in April 2016, the Arbitrators issued a decision awarding YTK \$14 million plus interest. The Authority filed an appeal in the Superior Court of Guam to deny the award to YTK. In December 2016, the Superior Court of Guam denied the Authority's motion to vacate the Arbitration Award and granted YTK's Motion to Confirm the Award. In June 2017, the Authority filed a Notice of Appeal in the Superior Court of Guam. In January 2018, the Authority filed a Motion to Dismiss in the Supreme Court of Guam. The matter is pending decision/opinion of the Supreme Court of Guam

The Authority is a defendant in other 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 adversely affect 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 at this time, and therefore, except for an accrual of approximately \$614,000 for the settlement of a lawsuit at September 30, 2018, no provision has been recorded for these litigation and claims in the 2018 and 2017 financial statements.

58. Pursuant to the Merchant Marine Act of 1936 and Guam Public Law 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 provided to the Authority by MARAD and was used as the basis for recording of capital assets. As of September 30, 2018, the Authority has not received the close-out documents from MARAD. The Authority expects to receive the close-out documents and changes in the dashboard project expenditure summary, if any, will be accounted for prospectively in the financial statements. 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.
59. 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, 2018.
60. 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 local, state, or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by local, state, or federal law.

61. 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.
62. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of programs administered by the Authority has been discovered.
63. No events have occurred after September 30, 2018, but before May 3, 2019, the date the financial statements are available to be issued that require consideration as adjustments to or disclosures in the financial statements.



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Rory Respicio, General Manager



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Connie Jo Shinohara, Deputy GM, Administration & Finance



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Jose Guevara, Financial Affairs Controller

**ATTACHMENT I, CONTINUED**

**Port Authority of Guam  
Summary of Current Year Uncorrected Misstatements  
September 30, 2018**

**APPENDIX A**

Entry Description	Assets	Liabilities	Equity	Profit and Loss
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<i>To correct deposits in transit to cash on hand</i>				
Cash on Hand	1,133,876			
Cash in Bank	(1,133,876)			
<i>To adjust difference in pension contributions not in the actuary report</i>				
Deferred outflow	152,562			
Pension expense				(152,562)
	<b>152,562</b>	<b>-</b>	<b>-</b>	<b>(152,562)</b>

# ATTACHMENT I, CONTINUED

Port Authority of Guam  
Summary of Recorded Adjustments  
September 30, 2018

## APPENDIX B

**Journal Entries - RJE**

#	Name	Debit	Credit
<b>1 RJE To reclassify federal AR from AR trade -</b>			
DT	Federal receivables	38,422.14	
50.1211.TRADE	Accounts Receivable-T		38,422.14
		<u>38,422.14</u>	<u>38,422.14</u>

**2 RJE To reclassify current portion of bonds payable**

50.3900.2018BOND	LT-2018 BOND Payable	1,320,000.00	
DT5	Bonds payable - current		1,320,000.00
		<u>1,320,000.00</u>	<u>1,320,000.00</u>

**Journal Entries - AJE**

#	Name	Debit	Credit
<b>1 CAJE To adjust bond issuance cost as expense</b>			
50.2090.2018COI	Def. Cost-2018 Bond C		1,976,108.00
70.9212.BOND	Bonds - COI	1,976,108.00	
		<u>1,976,108.00</u>	<u>1,976,108.00</u>

**1 CAJE To record bonds interest and premium amortization**

70.9213.BOND	2018 Bond interest expense	811,840.80	
70.9213.BOND	2018 Bond interest expense		44,139.62
50.3900.2018PREM	LT-2018 BOND Premium	44,139.62	
50.3251.BOND	Accrued bonds interest payable		811,840.80
		<u>855,980.42</u>	<u>855,980.42</u>

**2 AJE To record beginning GASB 75 numbers**

DT1	Deferred outflow of resources - OPEB	9,832,927.63	
DT2	Deferred inflow of resources - OPEB		13,651.39
DT3	OPEB liability		88,837,187.00
50.4711	Prior Period Adjustm	79,017,910.76	
		<u>88,850,838.39</u>	<u>88,850,838.39</u>

**2 CAJE To accrue additional invoice**

50.1221.OTHERS	Accounts Receivable-O	3,219.27	
60.5711.ENTRY	PORT ENTRY FEE		934.78
60.5712.DF1	DOCKAGE DOCKSIDE-FUL		1,535.81
60.5712.DF3	DOCKAGE ANCHORAGE-1/		639.90
60.5831	MARITIME SECURITY FE		108.78
		<u>3,219.27</u>	<u>3,219.27</u>

# ATTACHMENT I, CONTINUED

## APPENDIX B, CONTINUED

<b>3 AJE To adjust OPEB liability, deferrals and expense</b>			
DT3	OPEB liability	4,050,528.61	
DT1	Deferred outflow of resources - OPEB		1,644,620.63
DT2	Deferred inflow of resources - OPEB		7,251,899.79
DT4	OPEB expense	4,845,991.81	
		<u>8,896,520.42</u>	<u>8,896,520.42</u>

<b>4 AJE To adjust pension liability, expense and deferrals</b>			
101.8134	Unfunded Retirement	23,032.64	
121.8134	Unfunded Retirement	28,007.89	
122.8134	Unfunded Retirement	91,758.02	
123.8134	Unfunded Retirement	13,870.05	
140.8134	Unfunded Retirement	2,383.25	
145.8134	Unfunded Retirement	11,280.00	
150.8134	Unfunded Retirement	1,939.10	
300.8134	Unfunded Retirement	17,523.80	
310.8134	Unfunded Retirement	6,513.69	
312.8134	Unfunded Retirement	95,122.05	
313.8134	Unfunded Retirement	8,699.33	
320.8134	Unfunded Retirement	82,233.14	
330.8134	Unfunded Retirement	28,061.30	
331.8134	Unfunded Retirement	35,037.64	
332.8134	Unfunded Retirement	74,571.86	
333.8134	Unfunded Retirement	7,281.43	
650.8134	Unfunded Retirement	13,601.00	
670.8134	Unfunded Retirement	17,138.06	
675.8134	Unfunded Retirement	2,103.85	
681.8134	Unfunded Retirement	13,853.04	
685.8134	Unfunded Retirement	17,770.86	
50.2101	Pension-Deferred Outf		87,162.00
50.3651	Pension-Deferred Infl		1,778,732.00
50.3611	Unfunded Retirement C	2,114,512.00	
70.9215.COLA	Retirement Contr.-Co		646,000.00
70.9215.SUPLMENT	Ret. Gov't Contr.-Su		436,514.00
		<u>2,948,408.00</u>	<u>2,948,408.00</u>

<b>5 AJE To adjust allowance for bad debts</b>			
50.1212	Allow for Uncollectib	68,000.00	
70.8512	Bad Debt Expense		68,000.00
		<u>68,000.00</u>	<u>68,000.00</u>

<b>6 AJE To correct depreciation expense of cranes</b>			
70.8400.CRANE	Depreciation-Cranes	91,858.16	
50.2020.CRANE	AccDeprec-Crane Equip		91,858.16
		<u>91,858.16</u>	<u>91,858.16</u>

<b>3 CAJE To accrue estimated liability to Mr. Guevara</b>			
50.3614	Contingent Liability		614,241.54
70.8612	Contingencies	614,241.54	
		<u>614,241.54</u>	<u>614,241.54</u>