



OFFICE OF PUBLIC ACCOUNTABILITY
Doris Flores Brooks, CPA, CGFM
Public Auditor

March 5, 2014

Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina'Trentai Dos Na Liheslaturan Guåhan
155 Hesler Place
Hagatna, Guam 96910

32-14-1399
Office of the Speaker
Judith T. Won Pat, Ed. D.
Date 3.13.14
Time 8:10am
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Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Port Authority of Guam (PAG)'s Fiscal Year (FY) 2013 audited Financial Statements, Report on Compliance and Internal Controls, Management Letter, and Letter to Those Charged with Governance. Attached are our highlights of the audit reports.

For your convenience, you may also view and download the reports in their entirety at www.guamopa.org.

Senseramente,

Doris Flores Brooks, CPA, CGFM
Public Auditor

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RECEIPT ACKNOWLEDGED:

By: _____

Date: _____

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Port Authority of Guam FY 2013 Financial Highlights

February 28, 2014

For the past eleven years, the Port Authority of Guam (Port) has managed to close out its fiscal year (FY) with an increase in net position (net income) despite challenging economic factors such as the reduced military buildup and decreases in cargo handled. However for FY 2013, the Port's net position was only \$92 thousand (K) compared to \$2.1 million (M) in the prior year. The decrease was primarily due to the write-off and loss from disposal of property, plant and equipment of \$3.3M related to environmental studies and surveys for projects in the Port Modernization Plan that will no longer be pursued.

The Port received an unmodified (clean) opinion from independent auditors Deloitte & Touche, LLP for its financial statements and compliance report over major federal programs. The Port is applauded as no findings pertaining to federal funds were identified in FY 2013 as well as in FY 2012; therefore, the Port may qualify to become a low-risk auditee next fiscal year.

Revenues Increased by \$6.8M

The Port's FY 2013 operating revenues increased by 19% or \$6.8M from \$35.2M in FY 2012 to \$42M. Most of this derived from the \$5.9M increase in cargo throughput charges due to the new crane surcharge fees implemented in January and March 2013. The number of containers handled has been on a decline from the high of 98K in FY 2010 to 93K in FY 2012 and 91K in FY 2013. Total cargo revenue tons also declined to 1.9M. Although containers and tonnage handled decreased, the increase of tariff rates offset the impact. Equipment and space rental increased by \$610K from \$6.9M to \$7.5M.

Operating Expenses Increased by \$5.9M

The Port's FY 2013 operating expenses increased by 17% or \$5.9M from \$34.9M in FY 2012 to \$40.8M in FY 2013. This was primarily due to equipment maintenance costs. Three used gantry cranes were purchased in FY 2013, which caused the Port to absorb maintenance costs that were once paid for by Matson. FY 2013 equipment maintenance costs increased by \$2.4M from \$5.3M in FY 2012 to \$7.7M in FY 2013.

Although cargo activity declined, overtime nearly doubled from \$664K in FY 2012 to \$1.3M in FY 2013 as a result of required scheduling described in the Port's personnel rules and regulations. General expenses also increased by \$798K due to merit bonuses, loan fees, and legal fees. Merit bonuses of \$192K and loan fees of \$116K were paid out for the year. Legal fees increased by 209% or \$624K from \$299K to \$923K.

Updates on the Port Modernization Program and 2013 Master Plan Update

The Port Modernization Program continued in Phase I-A during FY 2013 which is funded through a \$50M grant from the Department of Defense and administered through the Maritime Administration (MARAD). This phase includes the reconfiguration and expansion of the break-bulk laydown area, renovation of the CFS Building container yard and gate house expansion and upgrade of utilities and security features.

Due to the reset called by the Military Buildup Program, the Port formulated a Balanced Modernization Program to include Wharf Service Life Extension and a reduction to Phase I-A to remain available in the Port Enterprise Program funds. In addition, the Port has a 2013 Master Plan Update which provides an overview of the current condition and elements of continuous improvement and sustainability. The Master Plan Update provides a five year near term emphasis on improvements to both the Port efficiency and the creation of additional cargo handling capacity for the anticipation of the military build-up.

Government Accounting Statements

The Government Accounting Standards Board (GASB) has issued several statements to be implemented in the next few years. GASB Statement Nos. 67 and 68, related to the *Financial Reporting for Pensions*, will result in significant adjustments as the Port will be required to report its pro rata share of GovGuam's pension liability, which as of FY 2012 is \$1.5 billion. Adoption of GASB 67 and 68 will come in FY 2015.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires the Port to present supplementary information on other post-employment benefits (OPEB) unlike the pension liability which will be recorded on the financial statements. As of FY 2011, the Port's pro rata share of GovGuam's OPEB valuation is \$37M.

Reports on Internal Control and Compliance, Management Letter, and IT Letter

The Port received an unmodified (clean) opinion on its compliance report over major federal programs and no significant findings were identified. Similarly, no material weaknesses were identified over financial reporting. With two years of no findings over major federal programs, the Port may qualify to be a low-risk auditee next fiscal year.

In a separate management letter, recommendations included: (1) identifying capital assets to which the Port Modernization Program costs should be charged to; (2) timely capitalization of construction in progress; (3) proper completion and authorization of leave forms; and (4) proper review of sales invoices. A separate letter was provided to Port's management on its information technology (IT) environment that identified five deficiencies.

For a more detailed commentary on the Port's operations, refer to the Management's Discussion and Analysis in the audit report. For more details, view the reports in their entirety at www.guamopa.org or www.portguam.com.

Deloitte.

**PORT AUTHORITY OF GUAM
(A COMPONENT UNIT OF
THE GOVERNMENT OF GUAM)**

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2013 AND 2012

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Port Authority of Guam:

Report on Financial Statements

We have audited the accompanying 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, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port Authority of Guam as of September 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14 as well as the Schedule of Funding Progress on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating expenses and summary of salaries and wages are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operating expenses and summary of salaries and wages are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses and summary of salaries and wages are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of employees by department has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deloitte & Touche LLP

February 26, 2014

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis
September 30, 2013 and 2012

The following Management's Discussion and Analysis (MD&A) of the Port Authority of Guam (PAG, Port, Authority) provides an overview of the activities and financial performance for the fiscal years ended September 30, 2013 and 2012. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the accompanying notes which follow this section and are integral to the data contained in the financial statements.

ABOUT THE AUTHORITY

The Port Authority of Guam was established as a public corporation and an autonomous agency of the Government of Guam by Public Law 13-87 in October 1975. The Port operates the only commercial seaport in the Territory and, as the primary seaport in Micronesia, serves as a transshipment point for the entire Western Pacific region. It operates the largest U.S. deepwater port in the region and currently handles about 1.9 million tons of cargo a year. The Port owns 5 cargo-handling piers along with two fuel piers and three marinas. The cost of operations and capital improvements are funded largely from the Authority's own revenues.

The Authority is presided over by five board members appointed by the Governor of Guam with the advice and consent of the Legislature. The Board of Directors appoints the General Manager and Deputy General Manager who are responsible for maintenance, operation and development of the Port and the agency's business affairs.

With over 90% of the region's goods and supplies passing through its doorways, the Port's impact on the quality and sustenance of life for residents of the region cannot be overstated. As Guam can only produce limited amounts of food and products on the island, the Port is truly the life link between the region and the rest of the world.

The Authority is dedicated to providing full services to ocean vessels in support of loading and unloading cargo from Guam and Micronesia. The Port Authority of Guam is the main lifeline of consumer goods into the island, and as such, recognizes its responsibility to deliver these goods in a timely manner. In support of this mission, the Port Authority also provides land and infrastructure to private interests to further develop the maritime industries on Guam. As a public corporation, the Authority dedicates all of its profits to the upgrading or equipment and facilities and the continued growth of the island's seaport.

FINANCIAL HIGHLIGHTS

- The net position of the Authority as of September 30, 2013 was \$71.3 million. Of this amount, \$60 million is net investment in capital assets, \$446 thousand is considered restricted and \$10.9 million is considered unrestricted.
- The Port's net position increased by \$93 thousand for fiscal year ended September 30, 2013.
- The Port's total assets increased by \$13.4 million during the fiscal year ended September 30, 2013. The major components of this change were an increase in current assets by \$4.2 million and increase in capital assets by \$9.2 million.
- The total liabilities increased by \$13.3 million during fiscal year ended September 30, 2013. The major component of this change was due to increase in non-current liabilities of \$10.9 million.
- Since Fiscal Year 2003, the Port's finances have consistently showed an increase in net assets for 11 straight years.
- The Port obtained a \$12 million loan from ANZ Bank in December 2012 for the purchase of 3 used Gantry Cranes.

PORT AUTHORITY OF GUAM
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Management's Discussion and Analysis
September 30, 2013 and 2012

Overview of Financial Statements

The Authority's basic financial statements consist of the following: 1) statements of net position, 2) statements of revenues, expenses, and changes in net position, 3) statements of cash flows and 4) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

The statements of net position present information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues, expenses, and changes in net position present information showing how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Analysis

The largest portion of the Authority's net position (84%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets, and excluding any outstanding debt proceeds. The Authority uses these assets to provide services to its customers; consequently these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Authority's net position represents resources that are unrestricted net position which may be used to meet the Authority's ongoing obligations to employees and creditors.

A summarized comparison of the Port's assets, liabilities, and net position at September 30 is as follows:

Condensed Statements of Net Position

(In thousands)

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 20,593	\$ 16,350	\$ 15,983
Capital assets	<u>74,591</u>	<u>65,456</u>	<u>64,406</u>
Total assets	\$ <u>95,184</u>	\$ <u>81,806</u>	\$ <u>80,389</u>
 <u>LIABILITIES AND NET POSITION</u>			
Current liabilities	\$ 8,394	\$ 5,982	\$ 6,445
Non-current liabilities	<u>15,464</u>	<u>4,591</u>	<u>4,764</u>
Total liabilities	<u>23,858</u>	<u>10,573</u>	<u>11,209</u>
Net position:			
Net investment in capital assets	59,933	62,255	61,051
Restricted – expendable	446	-	-
Unrestricted	<u>10,947</u>	<u>8,978</u>	<u>8,129</u>
Total net position	<u>71,326</u>	<u>71,233</u>	<u>69,180</u>
Total liabilities and net position	\$ <u>95,184</u>	\$ <u>81,806</u>	\$ <u>80,389</u>

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The Authority's total assets increased by \$13.4 million during the fiscal year ended September 30, 2013, from \$81.8 million in FY 2012 to \$95.2 million in FY 2013.

The increases were primarily due to the increases in the Port's current assets by \$4.2 million or 26% and property, plant and equipment by \$9 million or 14%. Total liabilities increased by \$13 million or 126% from \$10.6 million in FY 2012 to \$23.9 million in FY 2013. This was primarily due to the increase in Port's non-current liabilities for the loan to acquire three used Gantry Cranes. The net position increased by \$93 thousand during the fiscal year ended September 30, 2013. Net position invested in capital assets net of related debt decreased by \$2.3 million, restricted net position increased by \$446 thousand and unrestricted net position increased by \$2 million.

Key elements of these changes are identified in the following schedule of changes in net position and related explanations.

Port Authority of Guam
Changes in Net Position
(In thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues:			
Cargo throughput charges	\$ 29,724	\$ 23,785	\$ 23,605
Wharfage charges	4,185	4,089	3,939
Equipment and space rental	7,503	6,893	7,453
Special services	313	359	368
Other operating revenue	<u>185</u>	<u>121</u>	<u>485</u>
Total operating revenue	<u>41,910</u>	<u>35,247</u>	<u>35,850</u>
Operating expenses:			
Operations	10,335	9,205	9,191
Equipment maintenance	7,651	5,266	5,609
Facility maintenance	1,496	1,500	1,468
Management and administration	8,832	8,762	8,236
General expenses	<u>7,453</u>	<u>6,445</u>	<u>7,416</u>
Total operating expenses before depreciation	<u>35,767</u>	<u>31,178</u>	<u>31,920</u>
Operating income before depreciation	6,143	4,069	3,930
Depreciation	<u>4,893</u>	<u>3,720</u>	<u>3,351</u>
Operating income	1,250	349	579
Nonoperating expenses, net	<u>5,942</u>	<u>2,000</u>	<u>2,491</u>
Loss before capital contributions	(4,692)	(1,651)	(1,912)
Capital contributions-US Government Grants	<u>4,785</u>	<u>3,703</u>	<u>4,413</u>
Increase in net position	93	2,052	2,501
Net position at beginning of the year	<u>71,233</u>	<u>69,181</u>	<u>66,680</u>
Net position at end of year	<u>\$ 71,326</u>	<u>\$ 71,233</u>	<u>\$ 69,181</u>

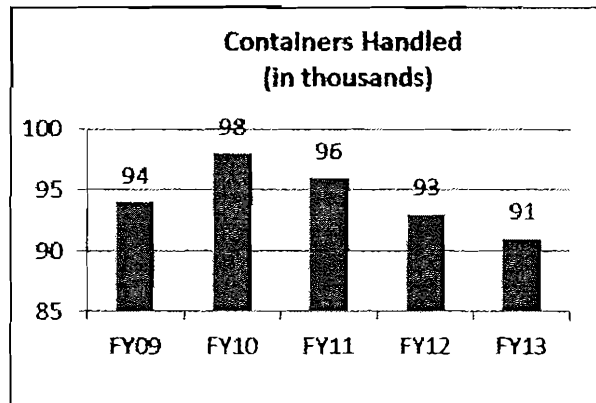
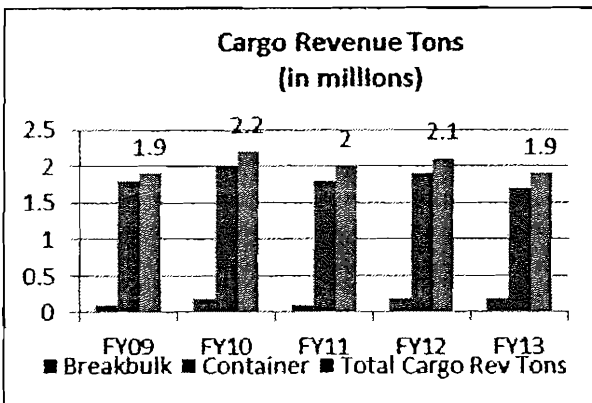
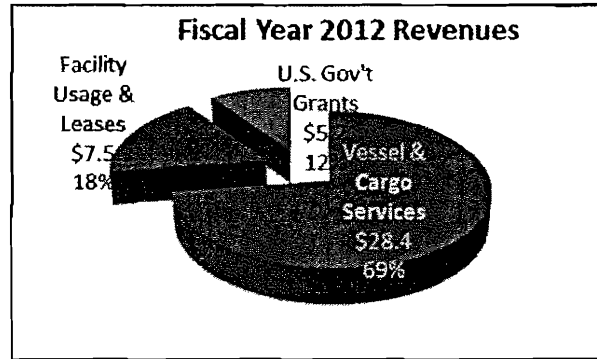
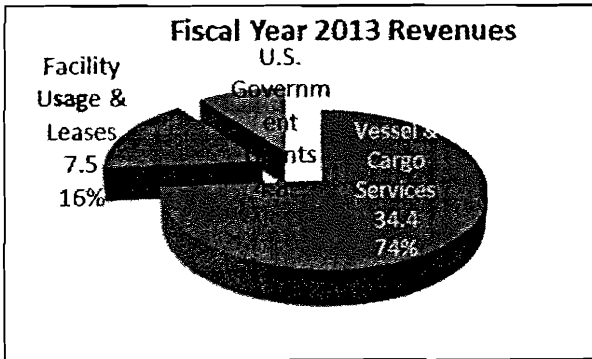
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Revenues

- PAG Docket 12-02, Crane Surcharge was approved by the PUC on December 11, 2012 and rates were implemented on January 1, 2013. The petition established a crane surcharge of \$105 per loaded import/export and loaded transshipment. This rate increased to \$125 on March 1, 2013. \$5 per revenue ton for import/export and transshipment breakbulk, with a cap of \$105 per unit.
- Vessel and cargo services revenues in FY 2013 increased by \$6 million. The increase was primarily due to the new crane surcharge fee.
- Facility usage and leases increased by 9% or \$610 thousand, from \$6.89 million in FY 2012 to \$7.5 million in FY 2013.
- Federal contributions in FY 2013 increased by \$1 million, from \$3.7 million in FY 2012 to \$4.8 million in FY 2013.

Vessel and cargo services in FY 2012 decreased by \$43 thousand compared to FY 2011 primarily due to decreased total containers handled of 3 thousand or 3%, from 96 thousand containers in FY 2011 to 93 thousand containers in FY 2012. Due to the tariff increases, the impact on vessel and cargo revenues resulting from the decrease in the number of containers handled was minimal.



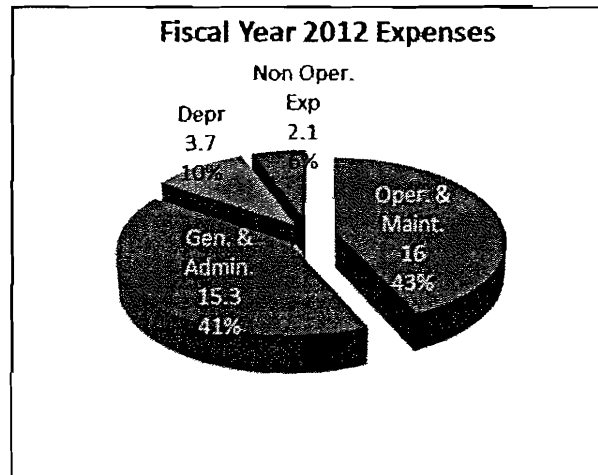
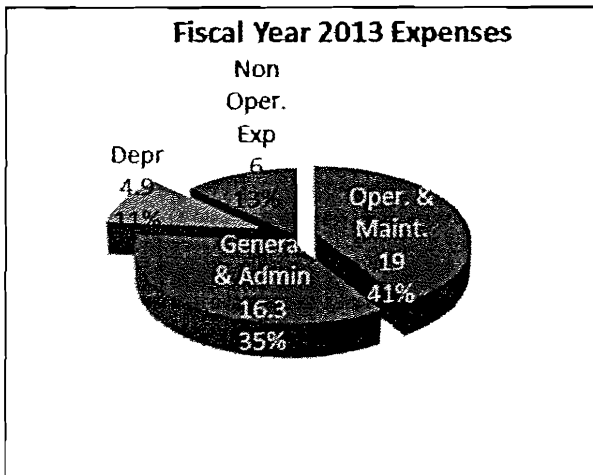
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Management's Discussion and Analysis
 September 30, 2013 and 2012

Expenses

In Fiscal Year 2013, total operating expenses were \$40.8 million and non-operating expenses were \$6 million. Operating expense increased by \$5.9 million and non-operating expenses increased by \$3.9 million compared to fiscal year 2012. Operation and maintenance salaries and benefits increased due to overtime increase of \$661 thousand or 100% due to implementation of new scheduling, repairs and maintenance increase of \$1.9 million as a result of the maintenance/repairs associated with the three Gantries acquired, and the payout of increments as a result of the Government lifting the increment freeze. General and administrative expenses increased by \$1 million due to \$200 thousand of Merit Bonus paid out as a result of Public Law 21-59, increases in legal fees, and loan fees. Depreciation expense increased by \$1.2 million or 32% due to the reclassification of a completed construction in progress project on GDP Dock A, B, & C Repair/Replacement and F1 Catwalk Replacement and purchase of new assets in FY 2013 to include the acquisition of 3 Gantry Cranes. Non-operating expenses increased by \$3.9 million due to reclassification of construction in progress projects for a master plan that will not be done due to the re-set of the GCPIP, loss on survey of Gantry 2 and interest expense for the \$12 million loan.

In Fiscal Year 2012, total operating expenses were \$34.9 million and non-operating expenses were \$2.1 million. Operating expense decreased by \$266 thousand and non-operating expenses decreased by \$1.1 million compared to fiscal year 2011. Operation and maintenance salaries and benefits increased due to 10 new employees hired during the fiscal year; however, the overall expense of operation and maintenance decreased by \$300 thousand as a result of reduced operational supplies. General and administrative expenses decreased by \$302 thousand due to decreases in professional services of 37%, other contracts of 27%, and supplies of 25%. Depreciation expense increased by \$369 thousand or 11% due to the reclassification of a completed construction in progress project on GDP renovation phase 1 and purchase of new assets in FY 2012.



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Management's Discussion and Analysis
September 30, 2013 and 2012

Port Modernization Plan

Overview

The Port Modernization Program, as authorized by the Guam Legislature, spans a 30-year planning horizon and is valued at a little more than \$260 million. Phase I-A and Phase I-B of the program focuses on near term critical maintenance and repair of waterfront activities and improvements needed to handle near-term cargo of the military buildup, and projected organic population increases. Phase II of the program will occur 20 years into the future and focuses on the expansion needed to address the cargo demands of the long-term growth of Guam and its neighboring islands.

The Authority is currently on Phase I-A of its Port Modernization Program. Phase I-A includes reconfiguration and expansion of the break-bulk laydown area, renovation of the CFS Building creation of a new gate complex, and upgrade of utilities and security features. Phase I-A is to be funded by a \$50 million appropriation from the Department of Defense.

\$50 million appropriation from the Department of Defense

In June 2008, the Authority partnered with the Maritime Administration (MARAD), through a Memorandum of Understanding (MOU), for the "Port of Guam Improvement Enterprise Program" (the Program). MARAD was designated as the lead federal agency assisting the Port in securing funding sources to modernize its facilities and operations. Under the Program, MARAD's role is to provide federal oversight and coordination of projects under the program, act as a central procurement organization, leverage federal, non-federal and private funding sources, and streamline the environmental review and permitting process. This partnership with MARAD was formalized through U.S. Public Law 110-417, National Defense Authorization Act for 2010. U.S. Public Law 110-417 also established the "Port of Guam Improvement Enterprise Fund" (the Fund) which is a separate account in the Treasury of the United States and will be used to receive funding from federal and non-federal sources to carry out the Program.

In July 2010, the United States House of Representatives passed the 2010 Supplemental Appropriations Act which provided \$50 million for the Port Modernization Program. This bill was signed by President Barack Obama in August 2010. The appropriation of \$50 million was transferred from the Department of Defense to the Fund on September 22, 2010. As set out in the MOU, the fund will be administered and disbursed by MARAD, with the approval/authorization of the Authority.

\$54.5 million funding from the USDA

On October 22, 2010, the USDA awarded a \$54.5 million loan appropriation to the Authority to complete the funding of Phase I-A of the Port Modernization Program. This loan consists of the following:

- \$25 million USDA Community Facilities Direct Loan
- \$25 million USDA Community Facilities Guaranteed Loan with ANZ Guam, Inc. (ANZ)
- \$4.5 million USDA Guaranteed Term Loan with ANZ

On the same date, the Authority received the proceeds of the USDA Guaranteed Term Loan with ANZ of \$3,500,000 .

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Management's Discussion and Analysis
September 30, 2013 and 2012

USDA Rural Development Community Facility Loans

Presented below are the USDA Rural Development Community Facility (CF) Loan Commitments as of September 30, 2013, which are intended for the Authority's specific projects (i.e., purchase of a Gantry Crane, Port Modernization Plan and purchase of top lifters and other cargo handling equipment (TLOCHE)):

	<i>USDA Loan Commitments:</i>		<i>Intended for the following Projects:</i>		
	<u>Direct*</u>	<u>Guaranteed*</u>	<u>Gantry Cranes</u>	<u>Modernization</u>	<u>TLOCHE</u>
CF Loan 1	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -	\$ -
CF Loan 2	-	5,000,000	5,000,000	-	-
CF Loan 3	-	7,000,000	7,000,000	-	-
CF Loan 4	-	4,500,000	-	-	4,500,000
CF Loan 5	25,000,000	-	-	25,000,000	-
CF Loan 6	-	-	-	-	-
	<u>\$ 27,000,000</u>	<u>\$ 16,500,000</u>	<u>\$ 14,000,000</u>	<u>\$ 25,000,000</u>	<u>\$ 4,500,000</u>

*Proceeds of the CF Direct Loans will come from USDA, while the rest are from ANZ which is "Guaranteed" by the USDA.

CF Loan 4 (Guaranteed) of \$4,500,000 intended for the purchase of cargo handling equipment, for more information please refer to Notes to Financial Statements, Long-term Bank Debt.

CF Loans 4 (Guaranteed), 5 (Direct) and 6 (Guaranteed) totaling \$54.5 million pertains to the Port Modernization Plan as per Public Law 30-57. The Authority intends to first use the \$50 million appropriation from the Department of Defense and then the CF Loans 5 (Direct) and 6 (Guaranteed) totaling \$50 million (at \$25 million each) for its Port Modernization Plan. However, due to changes in certain factors relating to the military buildup and cargo forecast, management does not intend to utilize the \$25 million CF Loan 6 (Guaranteed), and on April 17, 2012, the Authority officially withdrew the loan application for the \$25M Guaranteed Loan.

On November 30, 2011, USDA communicated with the Authority that the \$25 million CF Loan 5 (Direct) is to be used within a reasonable amount of time after obligation. Given the current budget situation in the U.S. Congress, all loans that have been "obligated" but not yet closed and/or disbursed are facing increased scrutiny. USDA encouraged the Authority to finalize their plans to use the proceeds from CF Loan 5 (Direct) by December 31, 2011. The Authority requested the USDA to extend the CF Loan 5 (Direct). As of the audit report date, the loan remains available and undisbursed.

CF Loans 1 (Direct), 2 (Guaranteed) and 3 (Guaranteed) totaling \$14 million is intended for the procurement of gantry cranes pursuant to Public Law 30-100 which mandates the Authority to acquire at least two gantry cranes no later than December 31, 2012. On November 2011, Public Law 31-145 was enacted that authorized the Authority to enter into negotiations with Matson and Horizon for the specific purpose of acquiring one or more of the Port of Los Angeles (POLA) gantry cranes through purchase or lease-to-own.

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On June 5, 2012, the Port Board of Directors approved and ratified the purchase of the 3-POLA cranes and Gantry 3 for \$12 Million. On August 27, 2012, Public Utilities Commission (PUC) approved the Sales Agreement and Interim Maintenance Agreement related to the purchase of the POLA Cranes. Subsequently, PUC in their meeting of September 25, 2012, authorized the Authority to proceed with finalizing the loan documents with the financial institution. In compliance of the statute, on December 2012, the closing of the \$12M loan and official signing of the Sales Agreement for the purchase of the POLA Cranes was completed. The Authority anticipates that the CF Loan 1 (Direct) for \$2M that is intended for the procurement of gantry crane be reprogrammed to secure the acquisition of cargo handling equipment.

The Military Buildup Program experienced a call for a re-set. The Port's response to the DOD re-set includes the formulation of a Balanced Modernization Program to include Wharf Service Life Extension and a reduction to Phase 1A to remain within the available Port Enterprise Program funds.

Furthermore, in response to the re-set, the Port's Owner Agent Engineer, PBI, prepared the Port Authority of Guam 2013 Master Plan Update, which provides a comprehensive view of the Port's current condition, identifies elements of continuous improvement and sustainability. An Implementation Plan was developed in conjunction with the 2013 Master Plan Update that evaluated Port improvement and sustainability requirements, and determined a balance approach for meeting these requirements.

The Port's 2013 Master Plan Update also contains a Financial Analysis and Economic Impact Assessment that provides a five-year near-term emphasis on improvements to both Port efficiency and the creation of additional cargo handling capacity in anticipation of the military build-up, as well as a 20-year long term focus on addition improvements targeted towards achieving operational and financial sustainability, and self-sufficiency through tariff adjustments to reduce or eliminate dependence on outside funding assistance.

A public hearing for the 2013 Master Plan was held on December 23, 2013, in compliance with Title 5 GCA, Chapter 1, Article 2, Centralized Planning. Per the statute, the maximum timeframe for full review and adoption of the plan is June 1, 2014.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Authority's investment in capital assets as of September 30, 2013, totaled \$74.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvement other than buildings, office and cargo handling equipments, inventory and construction-in-progress. The total net increase in the Authority's investment in capital assets for the current fiscal year was \$9.1 million or 14%.

Major capital asset activity during 2013 included the following:

- Building and wharf improvements increased by \$2.1 million due to the completion of GDP Dock A,B & C Repair/Replacement, F1 Catwalk Replacement, GDP New Waterline and Container Yard Lighting.
- Crane increased by \$8 million due to acquisition of Gantry 4, 5, and 6 and disposal of Gantry 2.

See note 3 to the financial statements for additional information on the Authority's capital asset activity during the years ended September 30, 2013 and 2012.

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Debt

The Authority obtained a \$3.5 million loan from ANZ bank in October 2010 for the purchase of 4 brand new Hyster Top Lifters and 10 brand new Ottawa terminal yard tractors. At the end of 2012, the Authority had total debt outstanding of \$3 million.

In December 2012, the Authority obtained a \$12 million loan from ANZ bank for the purchase of 3 used gantry cranes. At the end of 2013, the total debt outstanding was \$11.6 million.

The financial covenant of the loan requires the following ratios:

- a) Interest Coverage Ratio: PAG shall maintain an Interest Coverage Ratio of 1.5 to 1, calculated as follows:

$$\frac{\text{Net Profit (Loss) Before Depreciation, Interest, Taxes and Amortization}}{\text{Total Interest Expense}}$$

- b) Debt Service Coverage Ratio: PAG shall maintain a Debt Service Coverage ratio of 1.30 to 1, calculated as follows:

$$\frac{\text{Net Profit (Loss) Before Depreciation, Interest, Taxes and Amortization}}{\text{Total Interest Expense} + \text{Principal Debt Reductions}}$$

The interest coverage ratio is 7.82 and the debt service coverage ratio is 4.49.

See note 5 to the financial statements for additional information on the Authority's financing activities during the years ended September 30, 2013 and 2012.

FISCAL YEAR 2014 OUTLOOK

The following are the courses of action that the Port plans to accomplish or complete in FY 2014:

Interim Tariff Petition

In May 2013, the Port Board of Directors approved the Interim Tariff Petition of 5.65% across the board rate increase (excluding crane surcharge and fuel throughput). In July 2013, the Authority submitted its Petition to the PUC to increase the tariff rates for the generation of sufficient revenue to cover operating costs of the Port Authority, and service the loan required for planned improvements of the wharfs, the acquisition of cargo handling equipment and the Financial Management Systems Upgrade. The approval of the interim rate is expected by January 2014 and implementation of new rate in March 2014.

Facility Maintenance Fee Projects

Through the Facility Maintenance Fee, the Authority proceeded with the following projects:

- Dockside lighting
- Container Yard Stripping
- Lower/Higher Tower Renovations
- CFS Spalling

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Performance Management Contract (PMC) for the Maintenance of Gantry Cranes

Pursuant to PL 31-145, the Authority is to acquire PMC for the performance, operation and maintenance of the acquired cranes. The Authority has begun the negotiations of the PMC Services and is expected to make the contract award within the fiscal year 2014.

Port Security Grant Program (PSGP)

As part of the Port Security Grant Program of the U.S. Department of Homeland Security, the Authority was awarded over \$9.7 Million in federal security grants to help secure the commercial port. Through this program, the Authority proceeded with the following projects:

- Maritime and Port Security Operations Center and Port Security Enhancements Project: The construction work to build a centralized Port Command Center, as well as the integration of all CCTV, access control, communications and security systems was awarded in November 2012 with a projected completion date of January 2014. Project is still ongoing.
- Procurement of Mobile Containerized X-Ray Screening System, 3-Prime Power Backup Generators and Harbor Master's Communication System are other funded projects that are expected to be completed by FY 2014.
- Construction of CMU Wall and Replacement of Perimeter Security Fencing funded by the Port's 2013 PSGP with a completion date of September 2015.

Gregorio D. Perez Marina Renovation

Through federal grant awards from the Department of Interior/Office of Insular Affairs and USFW, the Gregorio D. Perez "Hagatna" Marina has undergone several capital improvement projects. Subsequent to the project completion of the Hagatna Marina Dock A and B Pole Extensions, Dock B Repairs, and Dock C Replacements in 2013, the Hagatna Marina Renovation and Site Improvement-Phase 2 is currently on going and is programmed to be completed within fiscal year 2014.

Agat Small Boat Marina Renovation

The Western Pacific Regional Fishery Management Council has recently awarded the Authority a \$250,000 federal grant to fund dock improvements at the Agat Small Boat Marina. This amount was not sufficient to complete repairs therefore, the Port has budgeted \$500,000 to fund the complete repair of Dock-A. The Authority has programmed to solicit and award this improvement project within the fiscal year 2014.

Other Marina and Harbor of Refuge Projects

- Renovation of the Guam Harbor of Refuge-Architectural and Engineering Design including Environmental Study Phase for the moorings
- Renovation of the Existing Pump-out Stations at the Marinas
- Agat Small Boat Marina Dock C & D Repairs
- Agat Small Boat Marina Replacement of existing rusty fish hook at the facility.

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Port Modernization Program (Guam Commercial Port Improvement Program)

As a result of the planned U.S. military relocation to Guam, the Port updated its Master Plan in 2007 as the framework of the Port Modernization Program. In 2011, the Military Buildup Program experienced a call for a re-set, requiring an updated Environmental Impact Statement, which delays and downsizes cargo projections and creates significant uncertainty for cargo-related revenue projections. Due to changing factors resulting from the reduction in the scope and timeline for the military buildup and corresponding impact on cargo forecasts, the Port Modernization Program was re-set and reconfigured to address organic growth.

The Guam Commercial Port Improvement Program (GCPIP) aims to expand its terminal yard operations area, upgrade its equipment and maintenance capabilities and improve its waterfront access. The GCPIP projects are preliminary improvements to meet the minimum requirements of PL 29-125, the needs of the people of Guam, reduced relocation military troops and modernize critical facilities at the Commercial Port. Projects under the GCPIP include the following:

- Container Freight Station Building Renovation: The construction work has been awarded and expected to be completed by February 2014.
- Selected Break Bulk Yard Modifications: The Notice to proceed for the project was issued in August 2013, with completion targeted for May 2014.
- Container Yard and Gate House Expansion Project: A contract award is anticipated by the third quarter of fiscal year 2014, with estimated completion by August 2015.

Replacement/Upgrade of Golf Pier Fuel Pipeline

The Replacement/Upgrade of the existing fuel lines at the Golf Pier is a joint project with the Department of Public Works. This project will be funded by the Federal Highway Administration (FHWA) and in part by the Port Authority of Guam. The design work for this project was commissioned by the Authority and has since been turned over to FHWA/DPW for bid packaging. The contract has been awarded in January 2014 with estimated completion by November 2014.

Service Life Extension (SLE) Program

The SLE Program was developed to address unforeseen structural repair work at the Port's F-5 Wharf, upgrade of the existing Financial Management Systems and acquisition of cargo handling equipment. After obtaining approval from the Port's Board of Directors, the Authority engaged the Guam Economic Development Authority (GEDA) to begin soliciting the financing services on behalf of the Port to fund the SLE Program for \$10 Million. In September 2012, GEDA issued the solicitation package and is expected that the contract award will take place within February 2014. Upon obtaining approval of this loan, the following projects under the SLE Program are expected to begin:

- Construction Repairs to F5 Wharf
- Marine Repairs to Berths F3, F4, and F6
- Upgrade of JD Edwards Financial Management System
- Procurement of Cargo Handling Equipment

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CONTACTING THE PORT'S FINANCIAL MANAGEMENT

The Management's Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Port's operations. This financial report is designed to provide a general overview of the Port Authority's finances and to demonstrate the Port's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in the Authority's report on the audit of financial statements which is dated February 15, 2013. That Discussion and Analysis explains in more detail major factors impacting the 2012 financial statements. A copy of that report can be obtained via the contact below.

For additional information about this report, please contact Joann B. Conway, Port Authority of Guam, 1026 Cabras Highway Suite 201, Piti, Guam 96915 or visit the website at www.portguam.com.

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Statements of Net Position
September 30, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents - unrestricted	\$ 10,848,206	\$ 10,886,253
Accounts receivable, net of allowance for doubtful accounts of \$812,332 and \$971,565 in 2013 and 2012	7,216,432	4,281,202
Federal receivables	1,939,720	928,560
Prepaid expenses	<u>11,464</u>	<u>128,485</u>
Total current assets	<u>20,015,822</u>	<u>16,224,500</u>
Cash and cash equivalents - restricted expendable	445,691	-
Replacement parts inventories, net of allowance for obsolescence of \$61,393 in 2013 and \$76,304 in 2012	131,149	125,875
Depreciable property, plant and equipment, net	55,170,099	46,372,709
Nondepreciable property, plant and equipment	<u>19,421,658</u>	<u>19,083,165</u>
	<u>\$ 95,184,419</u>	<u>\$ 81,806,249</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term bank debt	\$ 708,048	\$ 165,692
Accounts payable, trade and others	5,496,307	4,032,769
Security deposits and other payables	520,305	337,870
Accrued payroll and withholdings	369,046	321,687
Current portion of accrued annual leave	1,063,410	940,610
Unearned revenue	<u>237,301</u>	<u>183,361</u>
Total current liabilities	<u>8,394,417</u>	<u>5,981,989</u>
Long-term bank debt, net of current portion	13,950,936	3,035,317
Accrued annual leave, net of current portion	296,904	449,967
Accrued sick leave	<u>1,216,520</u>	<u>1,105,722</u>
Total liabilities	<u>23,858,777</u>	<u>10,572,995</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	59,932,773	62,254,865
Restricted - expendable	445,691	-
Unrestricted	<u>10,947,178</u>	<u>8,978,389</u>
Total net position	<u>71,325,642</u>	<u>71,233,254</u>
	<u>\$ 95,184,419</u>	<u>\$ 81,806,249</u>

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Cargo throughput charges	\$ 29,724,130	\$ 23,784,571
Equipment and space rental	7,503,461	6,893,541
Wharfage charges	4,184,706	4,088,748
Special services	313,492	359,364
Other operating income	184,589	121,584
	41,910,378	35,247,808
Recovery of (provision for) bad debts	157,916	(17,707)
	42,068,294	35,230,101
Operating expenses:		
Management and administration	8,831,804	8,761,565
Equipment maintenance	7,651,120	5,266,400
Depreciation	4,892,633	3,719,994
Transportation services	4,780,033	4,210,757
Stevedoring services	3,557,879	3,054,227
General expenses	3,185,863	2,388,175
Insurance	2,266,422	1,834,528
Utilities	2,160,286	2,204,216
Terminal services	1,996,973	1,940,149
Facility maintenance	1,495,636	1,500,053
Total operating expenses	40,818,649	34,880,064
Earnings from operations	1,249,645	350,037
Nonoperating (expenses) revenues:		
U.S. Government operating grants	33,851	127,500
Other income (expense), net	(6,235)	3,088
Interest (expense) income, net	(541,162)	(51,173)
Loss from disposal of property, plant and equipment	(664,395)	(754)
COLA/supplemental annuities	(2,156,036)	(2,079,067)
Write-off of property, plant and equipment	(2,608,576)	-
Total nonoperating expenses, net	(5,942,553)	(2,000,406)
Loss before capital contributions	(4,692,908)	(1,650,369)
U.S. Government grants	4,785,296	3,703,010
Increase in net position	92,388	2,052,641
Net position at beginning of year	71,233,254	69,180,613
Net position at end of year	\$ 71,325,642	\$ 71,233,254

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
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Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 39,864,363	\$ 35,003,187
Cash payments to suppliers for goods and services	(12,194,793)	(11,071,007)
Cash payments to employees for services and benefits	(24,251,645)	(22,614,392)
Net cash provided by operating activities	<u>3,417,925</u>	<u>1,317,788</u>
Cash flows from investing activity - interest received	<u>190,239</u>	<u>138,047</u>
Cash flows from capital and related financing activities:		
Capital grants received	3,346,777	3,703,010
Proceeds from long-term bank debt	12,000,000	-
Repayment of long-term bank debt	(542,025)	(154,086)
Interest paid	(731,401)	(189,220)
Purchase of property, plant and equipment	(17,301,487)	(4,770,241)
Net cash used in capital and related financing activities	<u>(3,228,136)</u>	<u>(1,410,537)</u>
Cash flows from non-capital related financing activities:		
Operating grants received	33,851	127,500
Other non-capital activities	(6,235)	3,088
Cash provided by non-capital and related financing activities	<u>27,616</u>	<u>130,588</u>
Net increase in cash and cash equivalents	407,644	175,886
Cash and cash equivalents at beginning of year	<u>10,886,253</u>	<u>10,710,367</u>
Cash and cash equivalents at end of year	<u>\$ 11,293,897</u>	<u>\$ 10,886,253</u>
Reconciliation of statements of cash flows to the statements of net position:		
Cash and cash equivalents - unrestricted	\$ 10,848,206	\$ 10,886,253
Cash and cash equivalents - restricted	445,691	-
	<u>\$ 11,293,897</u>	<u>\$ 10,886,253</u>

See accompanying notes to financial statements.

PORT AUTHORITY OF GUAM
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Statements of Cash Flows, Continued
Years Ended September 30, 2013 and 2012

	2013	2012
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$ 1,249,645	\$ 350,037
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	4,892,633	3,719,994
Recovery of (provision for) bad debts	(157,916)	17,707
Payments for COLA/supplemental annuities	(2,156,036)	(2,079,067)
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,099,955)	(217,519)
Prepaid expenses	117,021	10,624
Replacement parts inventories, net	(5,274)	(2,003)
Accounts payable, trade and others	1,463,538	(604,885)
Security deposits and other payables	(67,565)	86,720
Accrued payroll and withholdings	47,359	(22,514)
Accrued annual leave	(30,263)	9,015
Unearned revenue	53,940	(27,102)
Accrued sick leave	110,798	76,781
Net cash provided by operating activities	\$ 3,417,925	\$ 1,317,788

Supplemental non-cash disclosure:

In 2013, \$2,608,576 of construction work in progress was written-off to expense due to downscaling of the original Port Modernization Plan.

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2013 and 2012

(1) Organization and Summary of Significant Accounting Policies

The Port Authority of Guam (the Authority) was created by Public Law 13-87 as an autonomous instrumentality of the Government of Guam to own and operate the facilities of the Commercial Port of Guam. All assets and liabilities were transferred from the Commercial Port of Guam to the Authority at book value effective April 20, 1976. The Authority is governed by a five member Board of Directors appointed by the Governor with consent provided by the Legislature. The Authority is a component unit of the Government of Guam.

The Authority's main cargo handling facilities are located on thirty acres of reclaimed land on Cabras Island in Piti, Guam. Title to this land was transferred from the Government of Guam to the Authority in 1979. Eleven acres of adjacent property was assigned to the Authority from the U.S. Navy at an annual rent of \$1 to be used for future container yard expansion.

The Authority controls and/or manages approximately 260 acres of fast and submerged lands inclusive of the thirty acres noted previously. These areas include the Harbor of Refuge, Aqua World Marina, a portion of the Piti Channel, Agat Marina, Gregorio D. Perez Marina, Hotel Wharf, Dog Pier, Family Beach and the Port Authority Beach. The Guam Economic Development Authority (GEDA) has assigned the management of the thirty-two acre Cabras Industrial Park to the Authority.

On July 14, 2009, Public Law 30-52 placed the Authority under the oversight of the Public Utilities Commission of Guam (PUC). A comprehensive study of the Authority's tariff was performed in 2010 and the proposed rate increases were published in 2011. On January 11, 2012, the PUC approved the Authority's petition for tariff rate increases effective March 1, 2012. Because of the rate making process, certain differences may arise in the application of accounting principles generally accepted in the United States of America between regulated and non-regulated enterprises. Such differences mainly concern the time at which various items enter into the determination of net earnings in order to follow the principle of matching costs and revenues.

Basis of Accounting

The Authority utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Operating and Non-operating Revenues and Expenses

The Authority's revenues are derived primarily from providing various services to major shipping line customers under an approved tariff rate schedule and are reported as operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. Capital, grants, financing or investing related transactions are reported as non-operating revenues. All expenses related to operating the Authority are reported as operating expenses. COLA/supplemental annuities are reported as nonoperating expenses and revenues. Capital grants and other capital contributions from governmental agencies are recorded as net position when earned. Operating grants are recorded as revenue when earned.

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Notes to Financial Statements
September 30, 2013 and 2012

(1) Organization and Summary of Significant Accounting Policies, Continued

Net Position

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consists of the following three sections:

Net investment in capital assets:

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted:

Nonexpendable - Net position subject to externally imposed stipulations that require the Authority to maintain them permanently.

Expendable - Net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time.

Unrestricted:

Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Cash and Cash Equivalents

For purposes of the statements of net position and of cash flows, cash and cash equivalents is defined as cash on hand and deposits in banks and time certificates of deposit with initial maturities of three months or less. Restricted cash is separately classified in the statement of net position.

Accounts Receivable and Allowance for Doubtful Accounts

Substantially all of the Authority's accounts receivable as of September 30, 2013 and 2012 are due from international steamship lines/agents which are located or operating on Guam.

The Authority performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 30 days from the date of billing. As of September 30, 2013 and 2012, receivables that are more than thirty days past due totaled \$3,745,567 and \$1,674,636, respectively. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Uncollectible accounts are written-off against the allowance or are charged to expense in the period the Authority deems the accounts to be uncollectible.

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Notes to Financial Statements
September 30, 2013 and 2012

(1) Organization and Summary of Significant Accounting Policies, Continued

Replacement Parts Inventories

Replacement parts inventories consist of spare parts and supplies stated at average cost and are charged to expense as used. Due to the nature and availability of parts necessary for operations, inventory includes items which often are not used within one year. Thus, replacement parts inventories are classified as non-current assets.

Property, Plant and Equipment and Depreciation

Land is recorded at its appraised value on the date of transfer from the Government of Guam. Buildings and structures are stated at cost, which includes interest during the construction period. Equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (5 - 40 years for buildings and equipment). Current policy is to capitalize individual purchases over \$1,000 with useful lives exceeding one year. Normal maintenance and repairs are charged to operating expense as incurred; expenditures for major additions, improvements, infrastructure and replacements are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal with the resulting gain or loss credited or charged to nonoperating revenue/expense, respectively.

Compensated Absences

Compensated absences are recorded as a long-term liability in the statements of net position. Estimated amounts to be paid during the next fiscal year are reported as current liabilities. Vacation pay is convertible to pay upon termination of employment.

In accordance with Public Law No. 27-5 and Public Law No. 28-68, employee vacation rates are credited at either 104, 156 or 208 hours per year, depending upon their length of service as follows:

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service;
2. Three-fourths day (6 hours) for each full bi-weekly pay period in the case of employees with more than five (5) years of service but less than fifteen (15) years of service; and
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

The statutes further amended the maximum accumulation of such vacation credits from 480 to 320 hours. Public Law No. 27-106 amended subsection (c) of 4 Guam Code Annotated § 4109. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over the excess shall be lost.

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement.

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Notes to Financial Statements
September 30, 2013 and 2012

(1) Organization and Summary of Significant Accounting Policies, Continued

Risk Management

The Authority has commercial insurance coverage for directors' and officers' liability, comprehensive liability, employee dishonesty and forgery, money and securities loss, and automobile injury and property damage. Worker's compensation is managed through the local Department of Labor under the Government of Guam Special Fund (Special Fund); however, the Authority reimburses the Special Fund for the costs of claims. The Authority also has commercial property insurance coverage for 100% of the total net book value of property, plant and equipment, subject to deductibles. The Authority incurred no casualty losses in excess of insurance coverage during the years ended September 30, 2013, 2012 and 2011.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Taxes

As an instrumentality of GovGuam, the Authority and all property acquired by or for the Authority, and all revenues and income there from are exempt from taxation by GovGuam or by any political subdivision or public corporation thereof and from all taxes imposed under the authority of the Guam Legislature, or with respect to which the Guam Legislature is authorized to grant exemption.

New Accounting Standards

During the year ended September 30, 2013, the Authority implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

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Notes to Financial Statements
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(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which do not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, during the year ended September 30, 2013, debt issuance costs of \$116,000 which would have previously been capitalized, were expensed in the period incurred.

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

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

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(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

Reclassifications

Certain reclassifications have been made to 2012 financial statements to correspond to the 2013 presentation.

(2) Deposits

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

GASB Statement No. 40 requires disclosures for deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2013 and 2012, the carrying amount of the Authority's cash and cash equivalents totaled \$11,293,897 and \$10,886,253, respectively, and the corresponding bank balances were \$11,386,459 and \$11,061,516, respectively, all of which were maintained in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2013 and 2012, bank deposits in the amount of \$750,000 and \$1,868,624, respectively, were FDIC insured. 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. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

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(3) Property, Plant and Equipment

A summary of changes in property, plant and equipment for the years ended September 30, 2013 and 2012 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2012</u>	<u>Transfers</u> <u>and Additions</u>	<u>Transfers</u> <u>and Deletions</u>	<u>Ending Balance</u> <u>September 30, 2013</u>
<u>Depreciable:</u>				
Buildings	\$ 72,898,132	\$ 2,131,182	\$ -	\$ 75,029,314
Equipment	<u>28,728,125</u>	<u>12,223,236</u>	<u>(4,554,114)</u>	<u>36,397,247</u>
	101,626,257	14,354,418	(4,554,114)	111,426,561
Less accumulated depreciation	<u>(55,253,548)</u>	<u>(4,892,633)</u>	<u>3,889,719</u>	<u>(56,256,462)</u>
	<u>46,372,709</u>	<u>9,461,785</u>	<u>(664,395)</u>	<u>55,170,099</u>
<u>Non-depreciable:</u>				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	<u>15,520,165</u>	<u>5,263,791</u>	<u>(4,925,298)</u>	<u>15,858,658</u>
	<u>19,083,165</u>	<u>5,263,791</u>	<u>(4,925,298)</u>	<u>19,421,658</u>
Total	\$ <u>65,455,874</u>	\$ <u>14,725,576</u>	\$ <u>(5,589,693)</u>	\$ <u>74,591,757</u>
	<u>Beginning Balance</u> <u>October 1, 2011</u>	<u>Transfers</u> <u>and Additions</u>	<u>Transfers</u> <u>and Deletions</u>	<u>Ending Balance</u> <u>September 30, 2012</u>
<u>Depreciable:</u>				
Buildings	\$ 70,692,078	\$ 2,206,054	\$ -	\$ 72,898,132
Equipment	<u>28,174,492</u>	<u>572,048</u>	<u>(18,415)</u>	<u>28,728,125</u>
	98,866,570	2,778,102	(18,415)	101,626,257
Less accumulated depreciation	<u>(51,545,088)</u>	<u>(3,719,994)</u>	<u>11,534</u>	<u>(55,253,548)</u>
	<u>47,321,482</u>	<u>(941,892)</u>	<u>(6,881)</u>	<u>46,372,709</u>
<u>Non-depreciable:</u>				
Land	3,563,000	-	-	3,563,000
Construction work-in-progress	<u>13,521,899</u>	<u>4,735,138</u>	<u>(2,736,872)</u>	<u>15,520,165</u>
	<u>17,084,899</u>	<u>4,735,138</u>	<u>(2,736,872)</u>	<u>19,083,165</u>
Total	\$ <u>64,406,381</u>	\$ <u>3,793,246</u>	\$ <u>(2,743,753)</u>	\$ <u>65,455,874</u>

(4) Employees' Retirement Plan

Defined Benefit Plan

Plan Description:

The Authority participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing, multiple-employer defined benefit pension plan, administered by the GovGuam Retirement Fund (GGRF) to which all funds and agencies, including component units, as well as employees who are members of the DB Plan, contribute a fixed percentage of qualifying payroll. The DB Plan provides retirement, disability, and survivor benefits to members and beneficiaries who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature.

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(4) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

All new employees whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group. Membership in the DB Plan was mandatory for all full-time employees, except for those compensated on a fee basis, independent contractors, and persons aged 60 or over upon employment. Most employees may retire with full benefits at age 60 with at least 10 years of service, or after 25 years of service, regardless of age. Vesting of benefits is optional for employees with 3 to 19 years of service, but is mandatory for employees with 20 or more years of service.

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the GGRF, 424 A Route 8, Maite, Guam 96910, or by visiting its website - www.ggrf.com.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2011, 2010, and 2009, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2013, 2012 and 2011, respectively, have been determined as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Normal costs (% of DB Plan payroll)	17.52%	17.07%	17.00%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.02%</u>	<u>7.57%</u>	<u>7.50%</u>
Employer portion of normal costs (% of total payroll)	3.00%	3.03%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.33%</u>	<u>23.75%</u>	<u>21.75%</u>
Government contribution as a % of total payroll	<u>27.33%</u>	<u>26.78%</u>	<u>24.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.09%</u>	<u>28.30%</u>	<u>27.46%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

The Authority's contribution to the DB Plan for the years ended September 30, 2013, 2012 and 2011 totaled \$1,656,285, \$1,482,141 and \$1,489,052, respectively, which are equal to the required contributions for those years.

Defined Contribution Retirement System (DCRS)

Contributions into the DCRS plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual investment account within the DCRS. Employees are afforded the opportunity to select from different investment accounts available under the DCRS.

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(4) Employees' Retirement Plan, Continued

Defined Contribution Retirement System (DCRS), Continued

Statutory employer contributions for the DCRS plan for the years ended September 30, 2013 and 2012, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

The Authority's contributions for the DCRS plan payroll for the years ended September 30, 2013, 2012 and 2011 were \$3,437,123, \$3,111,487 and \$2,821,611, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$3,088,129, \$2,773,979 and \$2,508,418 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2013, 2012 and 2011, respectively.

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. The Authority has accrued an estimated liability of \$1,216,520, \$1,105,722 and \$1,028,941 at September 30, 2013, 2012 and 2011, respectively, for potential future sick leave payments as a result of this law. However, this amount is an estimate and the actual payout may be materially different than estimated.

Other Post-Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain post-retirement healthcare benefits to retirees who are members of the GGRF. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

For the years ended September 30, 2013, 2012 and 2011, the Authority reimbursed GovGuam for certain supplemental benefits for retirees, including contributions for the abovementioned Plan, as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medical and dental	\$ 1,216,975	\$ 1,171,262	\$ 1,439,584
Supplemental benefits	889,614	861,201	727,658
Life insurance	<u>49,447</u>	<u>46,604</u>	<u>54,565</u>
	<u>\$ 2,156,036</u>	<u>\$ 2,079,067</u>	<u>\$ 2,221,807</u>

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(5) Long-Term Liabilities

Summary

Long-term liabilities of the Authority consist of annual leave and sick leave payable to its employees and long-term bank debt. Changes in long-term liabilities for the years ended September 30, 2013 and 2012 are as follows:

	Outstanding at September 30, <u>2012</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding at September 30, <u>2013</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued annual leave	\$1,390,577	\$ 1,209,815	\$1,240,078	\$ 1,360,314	\$ 1,063,410	\$ 296,904
Accrued sick leave	1,105,722	110,798	-	1,216,520	-	1,216,520
Long-term bank debt	<u>3,201,009</u>	<u>12,000,000</u>	<u>542,025</u>	<u>14,658,984</u>	<u>708,048</u>	<u>13,950,936</u>
	<u>\$5,697,308</u>	<u>\$13,320,613</u>	<u>\$1,782,103</u>	<u>\$17,235,818</u>	<u>\$1,771,458</u>	<u>\$15,464,360</u>
	Outstanding at September 30, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Outstanding at September 30, <u>2012</u>	<u>Current</u>	<u>Noncurrent</u>
Accrued annual leave	\$1,381,562	\$1,053,249	\$1,044,234	\$1,390,577	\$ 940,610	\$ 449,967
Accrued sick leave	1,028,941	76,781	-	1,105,722	-	1,105,722
Long-term bank debt	<u>3,355,095</u>	<u>-</u>	<u>154,086</u>	<u>3,201,009</u>	<u>165,692</u>	<u>3,035,317</u>
	<u>\$5,765,598</u>	<u>\$1,130,030</u>	<u>\$1,198,320</u>	<u>\$5,697,308</u>	<u>\$1,106,302</u>	<u>\$4,591,006</u>

Long-term Bank Debt

Long-term debt consists of the following at September 30, 2013 and 2012:

- \$3,500,000 loan obtained from ANZ Guam, Inc. (ANZ) on October 22, 2010, representing a portion of the \$4,500,000 United States Department of Agriculture (USDA) Guaranteed Term Loan. The remainder of the USDA guaranteed loan is unused as of September 30, 2013. The term loan bears interest at 3% above the Federal Home Loan Bank of Seattle's 15-year amortizing fixed advanced rate at the time of funding (6.18% at September 30, 2013 and 2012) and is payable in monthly installments of \$30,049 in principal and interest over fifteen years. Proceeds of the loan were used to reimburse the Authority for the acquisition of four top lifters and ten terminal yard contractors which are also pledged as collateral for the loan. Outstanding principal balance as of September 30, 2013 amounted to \$3,037,138 (2012: \$3,201,009).
- \$12,000,000 loan obtained from ANZ on December 20, 2012, guaranteed by USDA. The term loan bears interest at 3.42% above the Federal Home Loan Bank of Seattle's 15-year amortizing rate at the time of funding (5.94% at September 30, 2013) and is payable in monthly installments of \$101,427 in principal and interest over fifteen years. Proceeds of the loan were used to finance the acquisition of the used cranes identified as Port of Los Angeles Cranes and Gantry Cranes (collectively the "cranes") from Matson Navigation Company LLC and Horizon Lines LLC. Outstanding principal balance as of September 30, 2013 amounted to \$11,621,846.

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(5) Long-Term Liabilities, Continued

Long-term Bank Debt, Continued

In relation to the purchase, maintenance and use of the cranes, pursuant to a PUC order, the Authority established and implemented a crane surcharge. PUC also ordered that 9.5% of the revenues from the crane surcharge are deposited in a crane reserve account restricted for the purposes of future crane acquisitions, any payment due to default on any crane loan liability or any extraordinary corrective maintenance events. The balance in the reserve account at September 30, 2013 is \$445,691.

As of September 30, 2013, future maturities of long-term bank debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	\$ 708,048	\$ 870,561	\$ 1,578,609
2015	751,380	826,327	1,577,707
2016	796,174	781,533	1,577,707
2017	848,188	729,519	1,577,707
2018	901,248	676,459	1,577,707
2019 through 2023	5,424,001	2,464,532	7,888,533
2024 through 2028	<u>5,229,945</u>	<u>664,437</u>	<u>5,894,382</u>
	<u>\$ 14,658,984</u>	<u>\$ 7,013,368</u>	<u>\$ 21,672,352</u>

(6) Major Customers

The Authority has three and two major shipping agency customers that collectively accounted for 78.63% and 67.41%, respectively, of total operating revenues for the years ended September 30, 2013 and 2012, respectively. The Authority has a high concentration of credit risk due to the limited number of entities comprising its customer base.

(7) Rental Operations

The Authority, in cooperation with the GEDA, leases space to tenants under noncancelable operating leases, with options to renew, providing for future minimum rentals. The minimum future rental on noncancelable operating leases for the five succeeding fiscal years and thereafter, are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 1,182,416
2015	1,182,416
2016	1,182,416
2017	1,182,416
2018	1,182,416
Thereafter	<u>4,512,410</u>
	<u>\$ 10,424,490</u>

The Authority also leases equipment and space to tenants on a month-to-month basis. Total equipment and lease space revenue from tenants for all rentals totaled \$7,503,461 and \$6,893,541 respectively, for the years ended September 30, 2013 and 2012, respectively.

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(8) Commitments and Contingencies

Port Modernization Plan

The Port Modernization Plan (the Plan) spans a 30-year planning horizon with an estimated project cost of \$260 million and was conditionally approved in 2008 through Public Law 29-125. The Plan consists of Phases I-A and I-B with a focus on critical maintenance and repair of waterfront activities over the next five years and Phase II with a focus on expansion needed to address long-term cargo growth demands of Guam and neighboring islands over the next twenty years. In 2009, the Guam Legislature approved Phases I-A and I-B of the Plan through Public Law 30-57.

In June 2008, through a Memorandum of Understanding (MOU), the Authority partnered with the Maritime Administration (MARAD) for the "Port of Guam Improvement Enterprise Program" (the Program). MARAD was designated as the lead federal agency assisting the Authority in securing funding sources to modernize its facilities and operations. Under the Program, MARAD is to provide federal oversight and coordination of projects, act as a central procurement organization, leverage federal, non-federal and private funding sources, and streamline the environmental review and permitting process. The partnership with MARAD was formalized through U.S. Public Law 110-417, *National Defense Authorization Act for 2010*. U.S. Public Law 110-417 also established the "Port of Guam Improvement Enterprise Fund" (the Fund), a separate account in the Treasury of the United States that will be used to receive funding from federal and non-federal sources to carry out the Program.

The Authority commenced with the Phase I-A of the Plan in 2010 and is to be funded by the following:

Appropriation from the U.S. Department of Defense (USDOD)	\$ 50,000,000
Appropriations from the USDA:	
Direct loans	25,000,000
Community Facilities Guaranteed Loan with ANZ	25,000,000
Guaranteed term loan with ANZ	<u>4,500,000</u>
	\$ <u>104,500,000</u>

The appropriation from the USDOD is sourced from the 2010 U.S. Supplemental Appropriations Act that was signed into law in August 2010. The appropriation was transferred to the Fund on September 22, 2010 and will be administered and disbursed by MARAD based on the terms of the MOU, however, with the approval and authorization of the Authority. The Authority intends to first utilize this appropriation before drawing down on the \$25,000,000 USDA appropriations.

The appropriations from USDA were awarded on October 22, 2010. On the same date, the Authority received \$3,500,000 of the guaranteed term loan with ANZ (see note 5). The remaining \$1,000,000 guaranteed term loan is unused as of September 30, 2013. The Authority anticipates that it will no longer utilize the unused portion of the loan.

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Notes to Financial Statements
September 30, 2013 and 2012

(8) Commitments and Contingencies, Continued

Port Modernization Plan, Continued

In 2011, due to changes in certain factors relating to the military buildup and cargo forecast, management no longer intends to utilize the \$25,000,000 Community Facilities Guaranteed Loan with ANZ and has formally withdrawn the loan application on April 17, 2012. Also, USDA communicated with the Authority that the \$25,000,000 direct loan is extended and to be used for expansion projects. The Authority has not utilized the \$25,000,000 direct loan.

In November 2013, the Plan was updated to provide a comprehensive view of the Authority's current condition, identify elements of continuous improvement and sustainability, and scaled down the components of the Phase I-A of the Plan, with maximum timeframe for full review and adoption on June 1, 2014.

At September 30, 2013, the Authority has \$11.7 million recorded in construction work-in-progress for the Port Modernization Plan. Realization of these assets is dependent on future events, including continuation of the Plan as currently envisioned. In 2013, \$2.6 million of the capitalized project costs were written-off to expense due to anticipated downscaling of the original Plan.

USDA Community Facility Loans

In 2010, USDA also awarded a \$2,000,000 direct loan and \$12,000,000 of guaranteed loans intended for the purchase of gantry cranes pursuant to Public Law 30-100 which mandates the Authority to acquire at least two gantry cranes no later than December 31, 2012. The Authority utilized the \$12,000,000 guaranteed loans for the purchase of the cranes (see note 5). The Authority requested USDA to re-direct the \$2,000,000 loan for purposes of acquiring critical cargo handling equipment.

Government of Guam General Fund

In March 2011, the Authority received a \$12,250,000 invoice from the Government of Guam's Department of Administration (DOA) representing an annual assessment of \$875,000 for each of the fiscal years 1998 to 2011 pursuant to 5 GCA Chapter 22 Section 22421, *Transfer of Autonomous Agency Revenues To Autonomous Agency Collections Fund*. In May 2011, the Authority responded to DOA requesting a further review of the assessment as the Authority believes that it does not owe DOA the entire \$12,250,000 based on previous funds transferred in 1994 and 1997 of \$500,000 and \$3,500,000 to the General fund and to the Government of Guam Autonomous Agency Infrastructure Collection Fund (AAICF), respectively. The Authority also asserts that it funds certain government services provided by the Guam Customs and Quarantine Agency, Guam Environment and Protection Agency, Guam Police Department and Guam Fire Department through ongoing operations at the Port; contributes to GEDA and Port's Base Realignment and Closure Commission; and, will fund the Tri-Star Pipeline and water line projects in the future. Further, the Authority understands that it is only required to transfer amounts to the AAICF when there is an operating surplus.

In September 2011, the Authority accrued \$700,000 representing its liability towards the AAICF funding based on its interpretation of the law. The amount is included in accounts payable, trade and others in the accompanying statements of net position as of September 30, 2013 and 2012.

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Notes to Financial Statements
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(8) Commitments and Contingencies, Continued

Lawsuit and Claims

The Authority is a defendant in various lawsuits and proceedings arising in the normal course of business. While the outcome of these lawsuits and proceedings cannot be predicted with certainty and could have a material adverse effect on the Authority's financial statements, it is the opinion of management, after consulting with its legal counsel, that the ultimate disposition of such suits and proceedings will not have a material adverse effect on the Authority's financial statements.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of the Government of Guam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of the Government of Guam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning in 1991. In 2013, the Authority paid \$194,000 of merit bonuses to active employees and accrued \$184,000 of estimated merit bonuses to be paid to inactive and retired employees.

Gantry 3 Crane

Management has assessed that the usage versus the cost associated to maintain the Gantry 3 crane far exceeds its actual hours of operation and performance activity and therefore, management recommends decommission of the crane. However, management has not determined when the asset will be surveyed. No adjustment to the estimated useful life of the asset has been made to the Authority's financial statements. Gantry 3 has a net book value of \$4,200,000 at September 30, 2013.

(9) Crane Surcharge

Pursuant to a PUC rate order effective January 1, 2013, the Authority implemented a crane surcharge of \$105 for each loaded import and export container and first carriers fully loaded transshipment containers handled at the Port, increasing to \$125 per container after February 28, 2013. In addition, the rate order required the Authority to assess a \$5 per ton surcharge on break bulk cargo, capped at \$105 per item.

The rate order also required the Authority to deposit 9.5% of surcharge revenues into a crane replacement sinking fund, which is restricted for the future acquisition of cranes, loan payments in default on past due crane liability or extraordinary corrective maintenance events.

The Authority recorded \$4,118,000 of crane surcharge revenue fiscal year 2013. The balance in the crane replacement sinking fund at September 30, 2013 is \$445,691.

(10) Subsequent Events

In October 2013, Dock D at Agat Marina was damaged in a tropical storm. Estimated damages have not yet been determined.

OTHER FINANCIAL INFORMATION

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Schedule of Funding Progress and Actuarial Accrued Liability - Post
Employment Benefits Other than Pension (Unaudited)

The Schedule of Funding Progress presents GASB 45 results of Other Post Employment Benefits (OPEB) valuations as of fiscal year ends September 30, 2011, 2009, and 2007 for the Port Authority of Guam's share of the Government of Guam Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 13,651,000	\$ 13,651,000	0.0%	\$ 10,981,000	124.3%
October 1, 2009	\$ -	\$ 32,847,000 *	\$ 32,847,000 *	0.0%	\$ 12,236,000	268.4%
October 1, 2011	\$ -	\$ 37,028,000	\$ 37,028,000	0.0%	\$ 13,878,000	266.8%

* No formal valuation was performed. The liabilities as of October 1, 2009 represent discounted October 1, 2011 liabilities.

The actuarial accrued liability presented above is for the Authority's active employees only. It does not include the actuarial accrued liability for the Authority's retirees, which was not separately presented in the OPEB valuation.

See Accompanying Independent Auditors' Report.

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Details of Operating Expenses
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Management and administration:		
<i>Management:</i>		
Salaries and wages - regular	\$ 287,920	\$ 332,304
Benefits - Government contribution	96,748	104,484
Annual leave	24,290	21,854
Fringe benefits	11,476	9,893
Salaries and wages - other	2,660	-
Office supplies	1,686	1,763
Furnishings and equipment	-	149
Miscellaneous	18,847	14,701
	<u>443,627</u>	<u>485,148</u>
<i>Administration:</i>		
Salaries and wages - regular	5,117,935	5,196,957
Benefits - Government contribution	1,778,816	1,677,026
Annual leave	464,382	405,284
Fringe benefits	294,491	300,579
Salaries and wages - overtime	176,130	150,064
Repairs and maintenance	161,986	168,260
Salaries and wages - other	126,195	53,112
Furnishings and equipment	59,276	39,308
Office supplies	28,690	27,967
Operational supplies	20,703	17,457
Miscellaneous	159,573	240,403
	<u>8,388,177</u>	<u>8,276,417</u>
Total management and administration	<u>\$ 8,831,804</u>	<u>\$ 8,761,565</u>

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Details of Operating Expenses, Continued
 Years Ended September 30, 2013 and 2012

	2013	2012
Equipment Maintenance:		
Repairs and maintenance	\$ 3,411,010	\$ 1,505,005
Salaries and wages - regular	2,264,379	2,036,291
Benefits - Government contribution	826,866	698,614
Operational supplies	404,443	346,744
Salaries and wages - other	203,568	167,113
Annual leave	197,590	158,222
Fringe benefits	157,874	156,898
Salaries and wages - overtime	122,182	108,291
Contractual	53,686	82,348
Furnishings and equipment	7,629	4,644
Office supplies	1,893	2,230
	<u>\$ 7,651,120</u>	<u>\$ 5,266,400</u>
Total equipment maintenance	<u>\$ 7,651,120</u>	<u>\$ 5,266,400</u>
Transportation Services:		
Salaries and wages - regular	\$ 2,495,037	\$ 2,292,477
Benefits - Government contribution	928,461	786,850
Gas, oil and diesel	434,094	490,954
Salaries and wages - overtime	396,927	146,653
Annual leave	199,127	182,162
Fringe benefits	175,092	185,770
Salaries and wages - other	149,296	122,621
Operational supplies	1,207	1,047
Office supplies	560	632
Furnishings and equipment	232	1,591
	<u>\$ 4,780,033</u>	<u>\$ 4,210,757</u>
Total transportation services	<u>\$ 4,780,033</u>	<u>\$ 4,210,757</u>

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Details of Operating Expenses, Continued
Years Ended September 30, 2013 and 2012

	2013	2012
Stevedoring Services:		
Salaries and wages - regular	\$ 2,013,636	\$ 1,896,230
Benefits - Government contribution	738,338	618,222
Salaries and wages - overtime	324,600	141,232
Fringe benefits	171,609	138,688
Annual leave	171,245	130,982
Salaries and wages - other	135,339	114,097
Operational supplies	2,514	13,736
Office supplies	598	1,040
	<u>\$ 3,557,879</u>	<u>\$ 3,054,227</u>
Total stevedoring services		
Facility Maintenance:		
Salaries and wages - regular	\$ 785,670	\$ 869,283
Benefits - Government contribution	307,631	300,704
Salaries and wages - overtime	157,735	67,015
Operational supplies	90,407	101,068
Annual leave	64,982	71,769
Fringe benefits	56,026	65,700
Salaries and wages - other	24,118	14,331
Repairs and maintenance	5,271	-
Furnishings and equipment	3,530	7,453
Office supplies	266	185
Miscellaneous	-	2,545
	<u>\$ 1,495,636</u>	<u>\$ 1,500,053</u>
Total facility maintenance		

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Details of Operating Expenses, Continued
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Terminal Services:		
Salaries and wages - regular	\$ 1,201,142	\$ 1,254,532
Benefits - Government contribution	416,548	407,728
Salaries and wages - overtime	147,933	50,891
Fringe benefits	91,493	98,207
Annual leave	91,250	83,730
Salaries and wages - other	39,632	35,750
Office supplies	8,562	8,611
Operational supplies	413	700
	<u>1,996,973</u>	<u>1,940,149</u>
Total terminal services	\$ <u>1,996,973</u>	\$ <u>1,940,149</u>
 General Expenses:		
Legal counsel	\$ 923,563	\$ 299,222
Professional services	803,671	1,043,043
Managers' fee	502,778	411,862
Merit bonus	191,795	-
Maintenance	185,675	97,455
Waste removal	145,051	144,740
Loan fees	116,030	-
Agency fee	43,558	38,683
Audit	42,000	43,523
Workmen's compensation injury allowance	29,376	66,056
Inventory adjustment	23,403	7,780
Port incentive award	15,905	42,866
Board of Directors expense	5,538	6,751
Claims and damages	2,550	31,253
Miscellaneous	154,970	154,941
	<u>3,185,863</u>	<u>2,388,175</u>
Total general expenses	\$ <u>3,185,863</u>	\$ <u>2,388,175</u>

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Summary of Salaries and Wages
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Salaries and wages - regular	\$ 14,165,719	\$ 13,878,074
Benefits - Government contribution	5,093,408	4,593,628
Fringe benefits	958,061	955,735
Salaries and wages - overtime	1,325,507	664,146
Salaries and wages - other	<u>680,808</u>	<u>507,024</u>
	<u>\$ 22,223,503</u>	<u>\$ 20,598,607</u>

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Employees by Department
Years Ended September 30, 2013 and 2012

Department:	<u>2013</u>	<u>2012</u>
Management and administration	111	125
Equipment maintenance	50	53
Transportation services	60	65
Stevedoring services	55	57
Facility maintenance	22	24
Terminal services	33	37
	<u>331</u>	<u>361</u>

Deloitte.

**PORT AUTHORITY OF GUAM
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2013

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Port Authority of Guam:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Port Authority of Guam (the Authority), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, have issued our report thereon dated February 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

February 26, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

The Board of Directors
Port Authority of Guam:

Report on Compliance for Each Major Federal Program

We have audited Port Authority of Guam's (the Authority's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2013. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

We have audited the financial statements of Port Authority of Guam as of and for the year ended September 30, 2013, and have issued our report thereon dated February 26, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



February 26, 2014

**PORT AUTHORITY OF GUAM
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

CFDA #	Agency/Program	Federal Expenditures
	<u>U.S. Department of Defense</u>	
12.607	Pass through Government of Guam Office of the Governor: Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	\$ 816,373
	<u>U.S. Department of the Interior</u>	
15.605	Pass through Government of Guam Department of Administration: Sport Fish Restoration Program	509,520 *
15.875	Economic, Social and Political Development of the Territories: Port Modernization Plan	1,400,580 *
	U.S. Department of Interior Total	1,910,100
	<u>U.S. Department of Homeland Security</u>	
	Direct Programs:	
97.056	Port Security Grant Program	1,341,724
97.116	ARRA Port Security Grant Program (ARRA)	741,617 *
	U.S. Department of Homeland Security Total	2,083,341
	<u>U.S. Department of Agriculture</u>	
	Direct Program:	
10.UNKNOWN	Rural Development Loan Guarantee	12,000,000 *
	Pass through Government of Guam Department of Administration:	
10.769	Rural Business Enterprise Grants	9,333
	U.S. Department of Agriculture Total	12,009,333
	Total Federal Awards Expended	\$ 16,819,147

* Denotes a major program.

See accompanying notes to Schedule of Expenditures of Federal Awards.

PORT AUTHORITY OF GUAM
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

(1) Scope of Audit

The Port Authority of Guam (the Authority) is a component unit of the Government of Guam created by Public Law 13-87 as an autonomous agency of the Government of Guam. Only the transactions of the Authority are included within the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the Authority's cognizant agency for the Single Audit.

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents expenditures for each Federal program related to the following agencies:

- U.S. Department of Defense
- U.S. Department of the Interior
- U.S. Department of Homeland Security
- U.S. Department of Agriculture

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses, capital outlays and loan proceeds are reported as expenditures.

The Authority recognizes contributions from the federal government when qualifying expenditures are incurred and expenditures are recognized on the accrual basis of accounting.

(3) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2013, the Authority's grant award notification and expenditures are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>FY 2013 Expenditures</u>
97.116 Port Security Grant Program – ARRA	\$ 910,594	\$ 741,617

**PORT AUTHORITY OF GUAM
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |

9. Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
15.605	Sport Fishing Restoration Program
15.875	Economic, Social and Political Development of the Territories: Port Modernization Plan
97.116	Port Security Grant Program (ARRA)
10.769	Rural Development Loan Guarantee

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Part II – Financial Statement Finding Section

None reported.

Part III – Federal Award Findings Section

None reported.

**PORT AUTHORITY OF GUAM
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2013

Unresolved Prior Year Findings and Responses

The status of unresolved prior year findings is stated below.

There are no unresolved prior year questioned costs.

Summary of Schedule of Prior Audit Findings

Findings relating to the financial statements, which are required to be reported in accordance with GAGAS:

None reported.

Findings and questioned costs – Major Federal Award Programs Audit

Finding No. 2011 – 1 – Not corrected.

Finding No. 2011 – 2 – Not corrected.

Views of Responsible Officials and Planned Corrective Actions on Finding Nos. 2011-1 and 2011-2 related to Cash Management:

No formal cash management policy has been formulated, although the Finance Department developed a practice within the fiscal year to make payments to the vendors prior to requesting for Drawdown. However there are some situations where advanced drawdowns will be made for large expense amounts.



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February 26, 2014

The Board of Directors
Port Authority of Guam

In planning and performing our audit of the financial statements of Port Authority of Guam (the Authority) as of and for the year ended September 30, 2013 (on which we have issued our report dated February 26, 2014), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we 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 for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, significant deficiencies related to the Authority's internal control over its information technology environment as of September 30, 2013 that we wish to bring to your attention. We have also identified, and included in the attached Appendix I, other deficiencies involving the Authority's information technology environment as of September 30, 2013 that we wish to bring to your attention.

A separate report was also issued dated February 26, 2014 and addressed to the Authority's management related to deficiencies we have identified involving the Authority's internal control over financial reporting and other matters as of September 30, 2013.

We have also issued a separate report to the Board of Directors, also dated February 26, 2014, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definitions of a deficiency, a material weakness, and a significant deficiency are also set forth in the attached Appendix I.

Although we have included management's written response to our comments in the attached Appendix I, such responses have not been subjected to the auditing procedures applied in our audit and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, the Office of Public Accountability - Guam and the Federal cognizant agency and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I – SIGNIFICANT DEFICIENCIES

We consider the following deficiencies in the Authority's internal control over its information technology environment to be significant deficiencies as of September 30, 2013:

1. Tariff System Logical Access Control (reiteration of prior year comment)

Comment: Users in the groups of tariff supervisors and tariff staff have been given access to the Tariff System. The tariff supervisors' access allows for changing tariff rates and input data; while the tariff staff's access allows for data entry only. Since the user IDs are not assigned to specific individuals but are assigned to user groups, responsibility is not established. Further, as the Tariff System does not have an audit trail function configured to produce a system report that captures all changes and modifications made by users, unauthorized changes in the Tariff System may not be detected.

Recommendation: The Authority should enhance the Tariff System's logical access control. We also recommend that the Authority provide individual rather than group user access, especially for those with data entry and/or edit capabilities.

Prior Year Management Responses: The Authority concurs with the finding. The system was developed by a small local firm. It does not have an audit trail and all of the modules are accessed using group IDs and password based on functional level, supervisor or data entry. One of the standard procedures to develop the system is to ensure the security of data maintenance, such as add, change, delete and updates of audit trail, based on users' functional level. Unfortunately, during the Y2K implementation, the Authority accepted the 3rd party system without IT involvement.

The IT Division is well aware of the issue with the current Tariff System. Therefore, the IT Division had recommended acquiring a Terminal Operating System which would include a new Tariff system containing all security control features recommended by you. The acquisition of a new Terminal Operating system is included in the Port Master Plan. Also, IT Division will find a way to implement your recommendation.

Current Status: Finding remains unresolved.

2. Segregation of Duties in the Program Change Process (reiteration of prior year comment)

Comment: The Authority has access to the current source code of the JDE Enterprise and Tariff System. When a program change occurs, the same system programmer is involved in performing tests on source codes in the test environment and migration of codes to the production environment.

Recommendation: The Authority should establish segregation of duties during the program change process. Two system programmers should be separately responsible to migrate modified codes or programs to the production environment and test the modified codes or programs in the testing environment.

Prior Year Management Response: The Authority will consider maintaining the segregation of duties during the program change process.

Current Status: Finding remains unresolved.

SECTION II – OTHER DEFICIENCIES

We identified the following other deficiencies involving the Authority's internal control over its information technology environment as of September 30, 2013 that we wish to bring to your attention:

1. Involvement of Division Managers/Supervisors During User Access Review (reiteration of prior year comment)

Comment: The IT Manager performs annual user access reviews without participation of Division Managers/Supervisors.

Recommendation: The Authority should consider involving Division Managers/Supervisors in the review of user access to determine appropriate access given to users of respective divisions managed.

Prior Year Management Response: The Authority concurs with the finding. Division Managers/Supervisors will be involved in the user access reviews in FY13.

Current Status: The IT department sent access right listing for review of division heads. However, the review was not completed because most of the division heads did not provide responses on the access review. Thus, finding remains unresolved.

2. Operating System Security Settings (updated in 2013)

Comment: We utilized the services of SekChek, a private entity that evaluates the security settings of operation systems, to compare the Operating System (OS)/400 security settings of the Authority against leading international security standards and averages in the government sector. The test comparison indicated that the Authority's control over the OS400 environment is considered below average with findings as follows:

- a. OS/400's auditing features are disabled (QAUDCTL)
- b. Password changes are only required every 180 days (QPWDEXPITV)
- c. The minimum password length is only 6 characters (QPWDMINLEN)
- d. Users are not prevented from selecting trivial passwords such as 'AAAAA' (QPWDLMTREP)
- e. Users are not prevented from reusing old/previous passwords (QPWDRQDDIF)
- f. Each character in a new password is not required to be different from the character in the same position in the previous password (QPWDPOSDIF)
- g. Users do not receive details of sign-on activity via their profiles (QDSPSGNINF)
- h. Adjacent numbers are allowed in passwords (QPWDLMTAJC)
- i. Users are allowed to sign-on to multiple devices at the same time (QLMTDEVSSN)
- j. OS/400's inactivity time-out limits are disabled (QINACTITV)
- k. Controls that reduce the risk of intruders gaining access to the system via repeated password guessing attempts are weak (QMAXSIGN)
- l. Passwords for 5.2% (24) of profiles have not been changed in the last 180 days

SECTION II – OTHER DEFICIENCIES, CONTINUED

2. Operating System Security Settings (updated in 2013), Continued

- m. 26.4% (121) of profiles can be used to sign-on to multiple devices at the same time
- n. Programs with adopted authorities, which allow users to adopt the authority of powerful profiles, should be checked.
- o. Authorities for the listed Objects, especially those for *PUBLIC access, should be checked
- p. The list of network services to ensure the network services are valid and required should be checked
- q. 5.4% (25) of profiles have not been used in the last 3 months
- r. Two or 0.4% of profiles use default passwords
- s. Some IBM-supplied (or Group) profiles do not have their passwords set to *NONE

System values are the foundational security features of OS/400, which if not set securely, could expose the overall AS/400 system to heightened security risk. This could affect the integrity, confidentiality, and availability of the Authority's financial information.

Recommendation: The Authority should revisit and strengthen its OS/400 security settings. Where efficiency or user convenience is favored over security, management approval for such decision including acceptance of risk should be documented.

Management Response:

- a. IT has no need for this at all, not to mention that it utilizes space resource, that's why this has been disabled since implementation.
- b. 90 days was recommended by the previous auditors. When we implemented it, PAG users were complaining and forgetting their passwords all the time, until almost 80% of IT's help desk calls are password resets due to this. It was agreed with end users that we keep this at 180 days. Top management approval was obtained.
- c to f. Based on experience & previous implementation, this type of security is proven to be tedious for the user and impractical for the Port.
- g. It is all agreed that keeping the users screen simple is the best route. Putting more logs or activity on users screen proved to be more problematic & confusing for them.
- h. Based on experience & previous implementation, this type of security is proven to be tedious for the user and impractical for the Port.
- i. This is needed for trouble shooting, and is vital for users that are assigned or move from different places.
- j. This was implemented before, but users are complaining about it, and the time-out also causes some of the ID's to be locked out.
- k. It's set to 5, which is the default.

SECTION II – OTHER DEFICIENCIES, CONTINUED

2. Operating System Security Settings (updated in 2013), Continued

- l. Most of the profiles were inactive accounts, which need to be disabled.
- m. This is needed for trouble shooting, and is vital for users that are assigned or move from different places, which happens on the time. It's been like this since 1999.
- n, o and p. These are system defaults.
- q. 11 of the accounts were inactive accounts. They were disabled on 11/4/13.
- r. The profiles are system accounts. Changing of the password will result in the system failure.
- s. These are system default values and system users that came with the IBM system.

3. Authentication Settings in GTS Application System (new in 2013)

Comment: GTS Application System only supports minimum password length of 6 characters as password control settings. Due to system's limitation, password parameter features such as password age, history, complexity, and account lockout were not in place. The IT department uses an audit trail function to detect unusual activities on as needed basis however, the audit trail was not reviewed periodically.

Recommendation: We recommend the Authority assess the risk related to weak password security and consider implementing mitigating controls.

Management Response: Although your recommendation is sound, the current practice has been in place for over 10 years without any issues. However, the Port is in the process of acquiring a new TOS system and this standard can then be adopted.

SECTION III – OTHER MATTERS

Other matters related to our observations concerning operations and best practices involving the Authority's information technology environment as of September 30, 2013 that we wish to bring to your attention are as follows:

1. Backup Tapes Offsite Location (reiteration of prior year comment)

Comment: Backup tapes are rotated daily to the Port Police Building, which is located next to the Administrative Building. When disasters such as a flood occur, the main server in the Administrative Building and the back-up tapes stored at the Port Police Building could be destroyed at the same time.

Recommendation: The Authority may want to consider an offsite facility to restore its back-up tapes.

Prior Year Management Response: The Authority concurs with the finding. The Requisition is in routing to rent a safety box from one of the local banks to store back-up tapes.

Current Status: The recommendation is in the procurement process. The target date is not yet finalized.

SECTION III – OTHER MATTERS, CONTINUED

2. Uninterrupted Power Supplies (reiteration of prior year comment)

Comment: Some of the Authority's uninterrupted power supplies (UPS) that are connected to the network are not functioning properly. In times of power fluctuations, network disconnection will occur resulting in disruption of operations.

Recommendation: The Authority should replace the defective UPS.

Prior Year Management Response: The Authority will consider having a technician check the UPS connected to the network and replace the defective UPS.

Current Status: The recommendation is in the procurement process.

SECTION IV – DEFINITIONS

The definitions of a deficiency, a material weakness, and a significant deficiency that are established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, are as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow Plan management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Authority's financial reporting.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Authority's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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February 26, 2014

The Board of Directors
Port Authority of Guam

Dear Members of the Board of Directors:

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

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

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

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

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

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

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

ACCOUNTING ESTIMATES

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

UNCORRECTED MISSTATEMENTS

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

MATERIAL CORRECTED MISSTATEMENTS

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

SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE AUTHORITY

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

DISAGREEMENTS WITH MANAGEMENT

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

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

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

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

CONTROL-RELATED MATTERS

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

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

This report is intended solely for the information and use of the Board of Directors, the management and the Office of Public Accountability - Guam and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Very truly yours,





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ATTACHMENT I



Eddie Baza Calvo
Governor of Guam
Ray Tenorio
Lieutenant Governor

February 26, 2014

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

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

We confirm that we are responsible for the following:

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

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

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

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

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

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

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

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

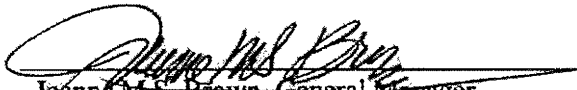
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
21. Regarding supplementary information:
 - a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP.
 - b. We believe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

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


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

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

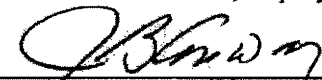
47. The Authority has assessed that it owes an estimated \$184,000 of merit bonuses to inactive and retired employees as required by Public Law 21-59.
48. Other than those described in note 10 to the financial statements, no events have occurred after September 30, 2013, and through the date of our signatures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



Joanne M.S. Brown, General Manager

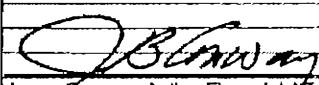
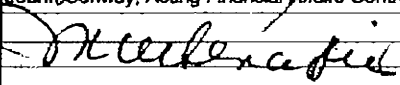



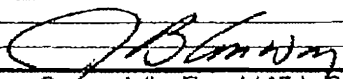
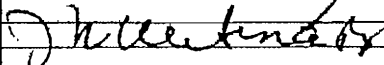

Maria D.R. Taitano, Deputy GM, Administration & Finance

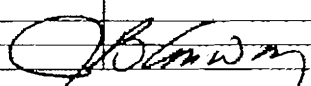
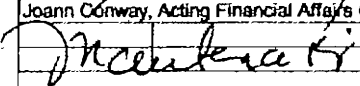
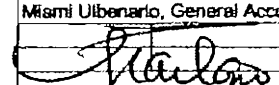


Joann B. Conway, Acting Financial Affairs Controller

ATTACHMENT I, CONTINUED

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

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

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

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

APPENDIX D

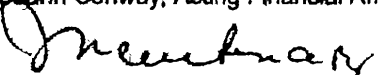
Footnote Title	Description of Omitted or Unclear Disclosure	Dollar Amount of Omitted or Unclear Disclosure (if applicable)	Explanation of Nature of Misstatement
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Related party disclosure	Related party transactions not disclosed	\$ 30,775	Transactions with one of the BOD member's family business and not disclosed
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Concurrence: The above passed disclosure item have been provided and explained to me. I understand the nature of this omitted disclosure and I believe they are considered to be immaterial to the financial statements taken as a whole. I also believe they did not result from fraud or illegal acts, rather errors.



 Joann Conway, Acting Financial Affairs Controller



 Miami Ulbenario, General Accounting Supervisor



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