POHNPEI PORT AUTHORITY

(A COMPONENT UNIT OF THE STATE OF POHNPEI)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei Port Authority:

We have audited the accompanying statements of net assets of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Pohnpei Port Authority as of September 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 - 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the Authority. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

April 24, 2009

Our discussion and analysis of the Pohnpei Port Authority's ("the Authority") financial performance provides an overview of the Authority's financial activities for fiscal year ended September 30, 2008. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's operating revenues for fiscal year 2008 decreased by $649,722 or 23% compared to fiscal year 2007 due to significant decline of $650,961 or 30% from seaport charges.
- For fiscal year 2008, the Authority's operating expenses were $637,964 or 41% higher than last year's mainly due to increases in depreciation and amortization of $214,407 or 84%, and repairs of $145,798 or 226%.
- The Authority's loss from operations of $594,651 was mainly attributed to substantial bad debt increase of $541,092 or 896% from $60,374 for fiscal year 2007.
- Capital assets increased by $589,737 or 10% as a result of completion of the new administration building and capital contributions from the FSM National Government.
- The Authority's net assets of $8,740,011 were $216,211 or 2% lower than fiscal year 2007.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Authority. Included in this report are the Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets. These financial statements present the complete financial picture of the Authority from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets and liabilities of the Authority and current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The accounts of the Authority are organized as a proprietary fund. Proprietary funds are used by governmental units that are operated in a manner similar to private business enterprises. The Authority prepares and submits a detailed statement of its proposed annual budget to the Governor on or before March 15th of each year. An annual budget may be amended at any time in the same manner as the adoption of the initial budget for that fiscal year. The Authority depends mainly on its generated revenues to sustain its operations. Seaport charges, departure fees, landing fees, land leases and space rentals are the major sources of revenues.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

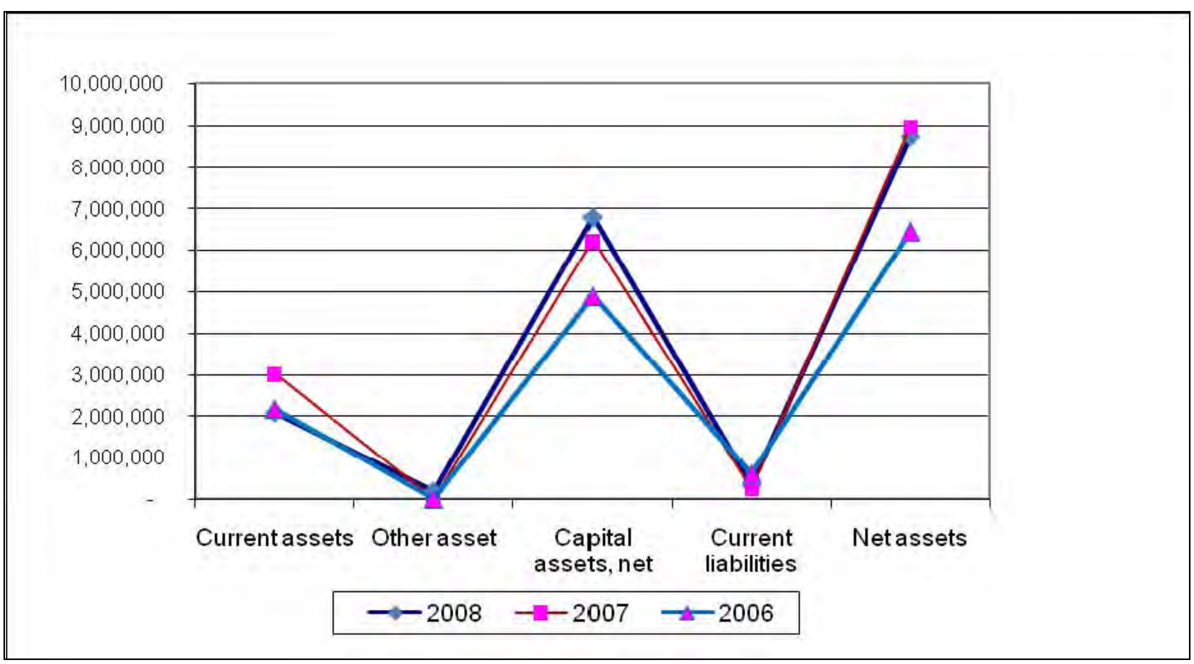
The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets report the financial condition or position and results of operations of the Authority. They show the assets, liabilities and the difference between assets and liabilities. They report the information whether the Authority has sufficient resources to meet its current and long-term obligations as well. They show whether the Authority's financial health is improving, deteriorating or remaining steady as prior year. They report the revenues earned and expenses incurred and whether the revenues are more or less than the expenses.

A Financial Analysis of the Authority as a Whole

Net Assets

The Authority's net assets decreased by $216,211 or 2% during fiscal year 2008 compared to fiscal year 2007. Current assets decreased by $912,021 or 30%; capital assets increased by $589,737 or 10% and liabilities increased by $93,679 or 37%. A summary of the Authority's net assets is as follows:

	2008	2007	2006
Current assets	$ 2,092,552	$ 3,004,573	$ 2,161,114
Capital assets, net	6,796,983	6,207,246	4,873,347
Other assets	199,752	-	-
Total assets	9,089,287	9,211,819	7,034,461
Current liabilities	349,275	255,596	600,455
Total liabilities	349,275	255,596	600,455
Net assets:			
Invested in capital assets	6,796,983	6,207,246	4,873,347
Unrestricted	1,943,029	2,748,977	1,560,659
Total net assets	$ 8,740,012	$ 8,956,223	$ 6,434,006



POHNPEI PORT AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2008 and 2007

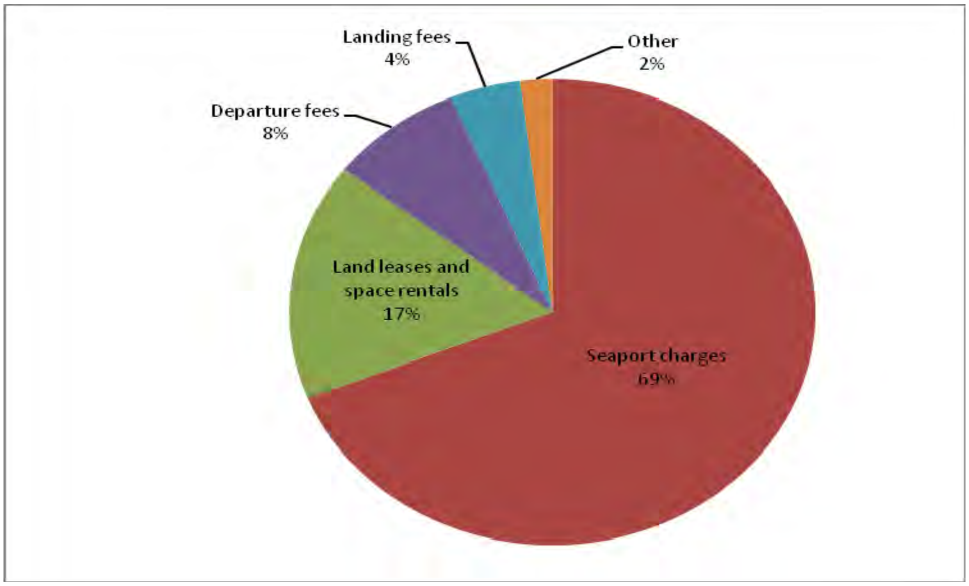
Changes in Net Assets

The Authority's changes in net assets for fiscal years 2006 to 2008 are as follows:

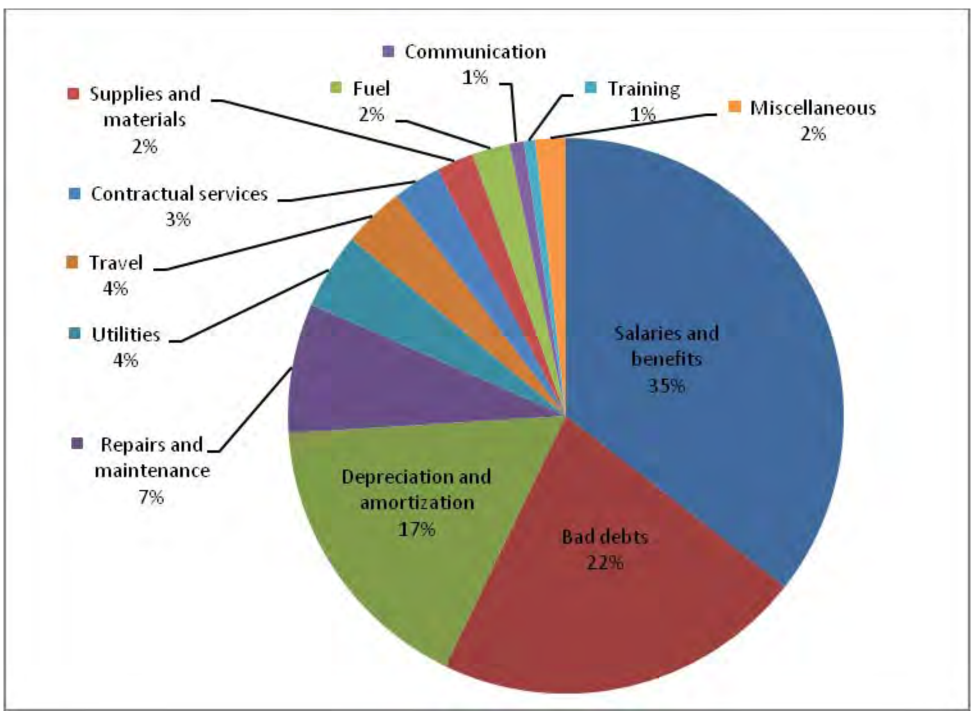
	2008	2007	2006
Operating revenues:			
Seaport charges	1,512,708	$ 2,163,669	$ 1,808,164
Land leases and space rentals	360,599	381,823	337,498
Departure fees	179,710	181,360	185,710
Landing fees	95,729	101,880	86,651
Other	43,084	12,820	7,712
Total operating revenues	2,191,830	2,841,552	2,425,735
Less allowance for doubtful debts	601,466	60,374	180,378
Net operating revenue	1,590,364	2,781,178	2,245,357
Operating expenses:			
Salaries and benefits	990,821	817,397	780,883
Depreciation and amortization	469,988	255,581	229,181
Repairs and maintenance	210,254	64,456	73,893
Utilities	123,419	87,523	76,706
Travel	100,260	75,912	56,834
Contractual services	77,646	61,777	46,507
Supplies and materials	60,899	63,264	54,567
Fuel	60,810	43,859	22,812
Communication	23,465	25,984	22,917
Training	18,417	17,841	4,562
Miscellaneous and others	49,036	33,457	40,729
Total operating expenses	2,185,015	1,547,051	1,409,591
Earnings (loss) from operations	(594,651)	1,234,127	835,766
Nonoperating revenues:			
Federal grants	-	-	2,961
Interest income	29,814	19,085	6,963
Other nonoperating income	-	-	689
Total nonoperating revenues, net	29,814	19,085	10,613
Capital contributions	348,626	1,269,005	75,033
Change in net assets	$ (216,211)	$ 2,522,217	$ 921,412

For the year ended September 30, 2008, the Authority's operating revenues of $2,191,830 and operating expenses of $2,786,481 that include bad debt expense are as follows:

Operating Revenues



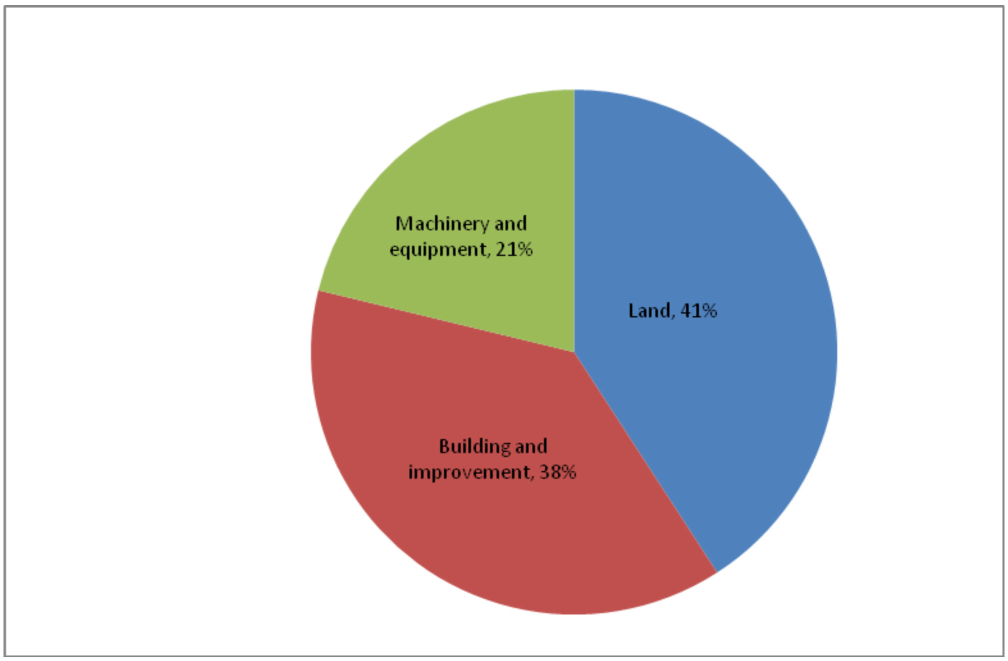
Operating Expenses



Capital Assets

As of September 30, 2008, the Authority's investment in capital assets net of accumulated depreciation amounted to $6,796,983 viz, land valued at $2,776,034, buildings and improvements of $2,578,678 and machinery and equipment of $1,442,271. Capital asset additions for buildings and improvements amounted to $1,088,666; and $214,576 for machinery and equipment, which included equipment costing $105,747 from FAA grant for a total of $1,303,242. Capital asset transfers and deletions totaled $341,447. Please see note 4 to the financial statements for additional information concerning capital assets.

Capital Assets



Long-term Debt

The Authority did not have any long-term debt or long-term liabilities existing at September 30, 2008, 2007 and 2006.

Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the Authority's report on the audit of financial statements, which is dated January 13, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at www.fsmpublicauditor.fm.

FY 2009 Projections and Budget

With fiscal year 2008 total revenues from all sources plunging by $649,722 or 23% from that of prior year, the Authority was not exempted from the ongoing global recession. The scenario was compounded by substantial bad debt from a major seaport customer whose account is under litigation. Consequently for fiscal year 2009, management will continue to actively pursue collection of delinquent accounts and streamline the budgetary expenditures relative to declining revenues without compromising our operation.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, creditors, Board of Directors and other interested parties with the general overview of the Authority's financial activities. Questions or additional financial information can be asked or obtained from Finance Division with the permission of the General Manager at P.O. Box 1150, Pohnpei, FM 96941.

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Statements of Net Assets
September 30, 2008 and 2007

ASSETS	2008	2007
Current assets:		
Cash and cash equivalents	$ 1,862,731	$ 2,467,790
Accounts receivable, net	197,695	498,165
Advances	20,166	10,438
Due from Pohnpei State	-	28,180
Prepaid expenses	11,960	-
Total current assets	2,092,552	3,004,573
Replacement parts, net of $57,072 amortization	199,752	-
Property and equipment, net	6,796,983	6,207,246
	$ 9,089,287	$ 9,211,819
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 204,150	$ 85,416
Accrued liabilities and others	77,995	92,466
Accrued annual leave	67,130	72,746
Deferred revenues	-	4,968
Total current liabilities	349,275	255,596
Contingency		
Net assets:		
Invested in capital assets	6,796,983	6,207,246
Unrestricted	1,943,029	2,748,977
Total net assets	8,740,012	8,956,223
	$ 9,089,287	$ 9,211,819

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	2008	2007
Operating revenues:		
Seaport charges	$ 1,512,708	$ 2,163,669
Land leases and space rentals	360,599	381,823
Departure fees	179,710	181,360
Landing fees	95,729	101,880
Other	43,084	12,820
Total operating revenues	2,191,830	2,841,552
Less allowance for doubtful debts	(601,466)	(60,374)
Net operating revenue	1,590,364	2,781,178
Operating expenses:		
Salaries and benefits	990,821	817,397
Depreciation and amortization	469,988	255,581
Repairs	210,254	64,456
Utilities	123,419	87,523
Travel	100,260	75,912
Contractual services	77,646	61,777
Supplies and materials	60,899	63,264
Fuel	60,810	43,859
Communication	23,465	25,984
Training	18,417	17,841
Miscellaneous and others	49,036	33,457
Total operating expenses	2,185,015	1,547,051
Earnings (loss) from operations	(594,651)	1,234,127
Nonoperating revenues:		
Interest income	29,814	19,085
Total nonoperating revenues	29,814	19,085
Capital contributions	348,626	1,269,005
Change in net assets	(216,211)	2,522,217
Net assets at beginning of year	8,956,223	6,434,006
Net assets at end of year	$ 8,740,012	$ 8,956,223

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from customers	$ 1,885,866	$ 2,707,254
Cash paid to suppliers for goods and services	(651,508)	(524,568)
Cash paid to employees	(996,437)	(809,544)
Net cash provided by operating activities	237,921	1,373,142
Cash flows from capital and related financing activities:		
Proceeds from disposal of property and equipment	-	444
Contributions from Pohnpei State	28,180	77,994
Reimbursement to FSM National Government	-	(342,637)
Acquisition of property and equipment	(900,974)	(348,976)
Net cash used in capital and related financing activities	(872,794)	(613,175)
Cash flows from investing activities:		
Interest income	29,814	18,962
Net cash provided by investing activities	29,814	18,962
Net change in cash and equivalents	(605,059)	778,929
Cash and cash equivalents at beginning of year	2,467,790	1,688,861
Cash and cash equivalents at end of year	$ 1,862,731	$ 2,467,790
Reconciliation of earnings (loss) from operations to net cash provided by operating activities:		
Earnings (loss) from operations	$ (594,651)	$ 1,234,127
Adjustments to reconcile earnings (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	469,988	255,581
Bad debts	601,466	60,374
Increase in assets:		
Accounts receivable	(300,996)	(173,404)
Advances	(9,728)	(1,314)
Prepaid expense	(11,960)	-
Replacement parts	(9,877)	-
Increase (decrease) in liabilities:		
Accounts payable	118,734	(14,816)
Accrued liabilities and others	(14,471)	(34,365)
Accrued annual leave	(5,616)	7,853
Deferred revenue	(4,968)	39,106
Net cash provided by operating activities	$ 237,921	$ 1,373,142

Summary Schedule of Noncash Activity:

During the year ended September 30, 2008, the Authority received various ARFF vehicle replacement parts from the FSM National Government totaling $348,626.

During the year ended September 30, 2007, the Authority received two ARFF vehicles from the FSM National Government totaling $1,240,825.

See accompanying notes to financial statements.

(1) Reporting Entity

The Pohnpei Port Authority (the Authority), a component unit of the Pohnpei State Government, was established by Pohnpei State Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. The Authority began operating as a separate entity in fiscal year 1993, although the accounting for the Authority was not transferred from the Pohnpei State Department of Treasury until January 1994.

The affairs of the Authority are managed by a seven-member board, consisting of representatives of the Pohnpei State Government appointed by the Governor to four-year terms. Daily operation of the Authority is delegated to a General Manager, who is appointed by and serves at the pleasure of the Board.

The Authority's financial statements are incorporated into the financial statements of the Pohnpei State Government as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities, require management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement No. 34, retained earnings are presented in the following net asset categories:

- Investment in capital assets, net of related debt: capital assets, net of accumulated depreciation, plus construction or improvement of those assets, less related debt.

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

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Authority's revenues are derived primarily from providing various services to major shipping and airline customers under an approved tariff rate schedule and are reported as operating revenues. Capital, grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. All expenses related to operating the Authority are reported as operating expenses. Interest income or federal program revenues are the primary components of non-operating expenses and revenues.

Cash and Cash Equivalents

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, 2008 and 2007, the carrying amount of the Authority's total cash and cash equivalents approximated the corresponding bank balances, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008 and 2007, bank deposits in the amount of $100,000 and $200,000, 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.

(2) Summary of Significant Accounting Policies, Continued

Receivables

The Authority's accounts receivable are with businesses and individuals based in Pohnpei State that relate to public land leases, space rentals, landing fees, port and handling charges, wharfage, gross receipts fees and other fees. The allowance for uncollectible 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.

Replacement Parts

Replacement parts primarily comprise parts for maintenance of fire trucks and related capital assets. The Authority will amortize these parts to income over a three to five year life.

Property and Equipment

Property and equipment are stated at cost or at estimated appraised values as of the transfer date, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets. The Authority utilizes a capitalization threshold of $300.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefit accrues to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The related sick pay expense is recorded when the benefit is actually taken.

Taxes

Corporate profits are not subject to income tax in the Federated States of Micronesia. The Government of the Federated States of Micronesia imposes a gross receipts tax of 3% on revenues. The Authority is specifically exempt from this tax.

New Accounting Standards

During fiscal year 2008, the Authority implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post-employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(3) Accounts Receivable

The detail of accounts receivable, net of allowance for doubtful debts, at September 30, 2008 and 2007, is as follows:

	2008	2007
Accounts receivable	$ 1,365,550	$ 1,064,554
Less allowance for doubtful debts	(1,167,855)	(566,389)
	$ 197,695	$ 498,165

(4) Property and Equipment

Capital asset activity for the years ended September 30, 2008 and 2007, was as follows:

	Estimated Useful Lives	Balance at October 1, 2007	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2008
Non-depreciable:					
Land		$ 2,776,034	$ -	$ -	$ 2,776,034
Construction in progress		300,589	-	(300,589)	-
		3,076,623	-	(300,589)	2,776,034
Depreciable:					
Buildings and improvements	7 to 70 years	13,653,151	1,088,666	-	14,741,817
Machinery and equipment	3 - 5 years	2,134,477	214,576	(40,858)	2,308,195
		15,787,628	1,303,242	(40,858)	17,050,012
		18,864,251	1,303,242	(341,447)	19,826,046
Less accumulated depreciation		(12,657,005)	(412,916)	40,858	(13,029,063)
Net investment in property and equipment		$ 6,207,246	$ 890,326	$ (300,589)	$ 6,796,983

	Estimated Useful Lives	Balance at October 1, 2006	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2007
Non-depreciable:					
Land		$ 2,776,034	$ -	$ -	$ 2,776,034
Construction in progress		60,305	240,284	-	300,589
		2,836,339	240,284	-	3,076,623
Depreciable:					
Buildings and improvements	7 to 70 years	13,646,798	6,353	-	13,653,151
Machinery and equipment	3 - 5 years	791,757	1,343,164	(444)	2,134,477
		14,438,555	1,349,517	(444)	15,787,628
		17,274,894	1,589,801	(444)	18,864,251
Less accumulated depreciation		(12,401,547)	(255,581)	123	(12,657,005)
Net investment in property and equipment		$ 4,873,347	$ 1,334,220	$ (321)	$ 6,207,246

During fiscal year 1996, an appraisal of the Authority’s facilities was made by an independent contractor and the resultant appraised values of the land are reflected in the accompanying financial statements.

(5) Contingency

The Authority is subject to certain legal complaints that have arisen in the normal course of business. Management is of the opinion that resolution of these matters will not have a material effect on the accompanying financial statements.

(6) Risk Management

The Authority purchases insurance to cover workmen's compensation and life insurance risks and is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

(7) Future Rental Revenues

The approximate future minimum annual rental revenue receivable by the Authority for lease contracts currently held with certain private corporations is as follows:

Year ending September 30,	Total
2009	$ 309,648
2010	227,144
2011	202,589
2012	201,901
2013	201,901
2014 - 2018	983,382
2019 - 2022	545,272
	$ 2,671,837

(8) Pension Plan

The Authority's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. The Plan is a contributory plan in which the Authority contributes a maximum of 5 percent of the participant's annual salary, and the participant contributes at least 3 percent from his or her annual salary. Participation is optional. Vesting occurs over a six year period. The Authority's Comptroller is the designated Plan administrator. Contributions to the Plan during the years ended September 30, 2008 and 2007 were $34,916 and $18,448, respectively. Management is of the opinion that the Plan does not represent an asset or liability of the Authority. For the years ended September 30, 2008 and 2007, plan assets were $205,587 and $207,177, respectively.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

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
Pohnpei Port Authority:

We have audited the financial statements of the Pohnpei Port Authority (the Authority) as of and for the year ended September 30, 2008, and have issued our report thereon dated April 24, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated April 24, 2009.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

April 24, 2009