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April 24, 2009

The Board of Directors
Pohnpei Port Authority

Dear Members of the Board:

We have performed an audit of the financial statements of Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated April 24, 2009.

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 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, have been described in our engagement letter dated September 30, 2008. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation of the Authority's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and

- 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, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

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.

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 would not necessarily 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 by 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 2008 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; management's estimate of amortization expense, which is based on estimated useful lives of replacement parts for fire trucks and related capital assets; 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, 2008, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Authority's financial reporting process. Such adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2008 financial statements.

In addition, we have attached to this letter, as Appendix II, 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.

SIGNIFICANT ACCOUNTING POLICIES

The Authority's significant accounting policies are set forth in Note 2 to the Authority's 2008 financial statements. During the year ended September 30, 2008, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority:

- Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,* which establishes uniform financial reporting for other postemployment benefit plans by state and local governments.

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which 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.

- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27,* which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

The implementation of these pronouncements did not have a material effect on the financial statements of the Authority.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Authority's 2008 Annual Report, 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. We will read the other information in the Authority's 2008 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.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Authority's 2008 financial statements.

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 2008.

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 Appendix III, a copy of the representation letter we obtained from management.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

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

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.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated April 24, 2009, wherein no matters involving the Authority's internal control over financial reporting that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

We have communicated to management, in a separate letter also dated April 24, 2009, control deficiencies and other matters that we identified during our audit.

* * * * * * * *

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

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

Journal Entries - AJE

#	Name	Debit	Credit
	1 AJE To provide allowance for returned check - 5313 (Posted)		
1102	Allow. D/A- Trade receivable	-	37,170.77
5553- ADM	Bad debts	37,170.77	-
		37,170.77	37,170.77
	To provide allowance for returned checks - which were trade receivables originally.		
	2 AJE To provide allowance for PMS - 5311 (Posted)		
1102	Allow. D/A- Trade receivable	-	200,450.26
5553-ADM	Bad debts	200,450.26	-
		200,450.26	200,450.26
	To provide additional allowance for PMS.		
	3 AJE To reclass capitalizable assets. - 2264 (Posted)		
1647	Machinery and equipment	105,746.90	-
1648	Acc. dep'n.- Machinery and equipment	-	14,099.59
1400	Inventory	-	105,746.90
5551	Depreciation expenses	14,099.59	-
DTT -08	Amortization - parts	57,071.96	-
1400-dt	Amortization of replacement parts	-	57,071.96
		176,918.45	176,918.45

To reclassify as property FAA grant assets valued at $5000 and above.

To record depreciation for FAA grant from feb to sept 2008.

To record amoritzaiton of supplies from feb to sept 2008.

The above adjusting entries are not due to fraud or illegal acts. Rather, we believe that the above constitute misstatement. In connection with the Corrected Audit Adjustments listed above, we have reviewed and approve them on the basis of information we have provided to you.

Luz Merencillo, Controller — Date: 4-24-09

Ieski Iehsi, General Manager — Date: 4/24/09

Journal Entries - RJE

#	Name	Credit
	1 RJE To reclass grant revenue - capital contribution - 8110 (Posted)	
DTT	Capital Contributions	348,626.00
4551- ADM	CFSM Grant	-
		348,626.00
	For FS presentation to show as revenue - capital contribution.	

The above reclassifying entries are not due to fraud or illegal acts. Rath that the above constitute misstatement. In connection with the Corrected Audit Adjustibove, we have reviewed and approve them on the basis of information we have provide

Luz Merencillo, Controller — Date: 4-24-09

Ieski Iehsi, General Manager — Date: 4/24/09

Appendix A

Entry Description	Type of Entry	Balance Sheet				Income Statement			Total Equal 0
		Assets Dr (Cr)	Liabilities Dr (Cr)	Retained Dr (Cr)	Other Dr (Cr)	Income Dr (Cr)	Income Dr (Cr)	Disc. Dr (Cr)	
PAJE <1> To correct recording of local grant revenue									0
Expenditure - reef marker/ supplies & materials	Known					4,968			4,968
Revenue - local grant (reef marker)	Known					(4,968)			(4,968)
									0
PAJE <2> To record difference in the transhipment revenue.									0
Revenue - transhipment revenue	Likely					18,821			18,821
Accounts Receivable	Likely	(18,821)							(18,821)
									0
PAJE <3> To reverse non-valid payroll outstanding check.									0
Cash	Known	11,571							11,571
Accounts Payable	Known		(11,571)						(11,571)
									0
PAJE <4> To reverse recording of prepayment of CTSI.									0
Accounts Payable	Known		8,296						8,296
Prepayment	Known	(8,296)							(8,296)
									0
PAJE <5> To provide allowance for MOBIL - AR.									0
Bad debts	Likely					7,596			7,596
Allowance for doubtful accounts	Likely	(7,596)							(7,596)
									0
PAJE <6> To record difference in the boat revenue.									0
Accounts Receivable	Likely	32,125							32,125
Boat Moves Revenue	Likely					(32,125)			(32,125)
									0
PAJE <7> To record error noted in the anchorrage revenue for PMS.									0
Accounts receivable	Known	6,521							6,521
Revenue	Known					(6,521)			(6,521)
PAJE <7> To accrue repairs on roof.									0
Expense	Known					6,716			6,716
Accounts payable.	Known		(6,716)						(6,716)
									0
									0
	0	15,504	(9,991)	0	0	(5,513)	0	0	0

The above uncorrected misstatements of the current year are a result of error and not of fraud.

Concurred by:

Ieske Iehsi, General Manager — Date: 4/28/09

Luz Merencillo, Comptroller — Date: 4-27-09

POHNPEI PORT AUTHORITY
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E-mail: pauthority@mail.fm

April 24, 2009

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, Guam 96913-3911

Gentlemen:

We are providing this letter in connection with your audits of the statement 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, which collectively comprise the Authority's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

a. The fair presentation in the basic financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the basic financial statements.

c. The design and implementation of programs and controls to prevent and detect fraud.

d. Establishing and maintaining effective internal control over financial reporting.

d. 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.

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 basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:

    a) Net assets components (invested in capital assets, restricted and unrestricted) are properly classified and if applicable, approved.

    b) Capital assets, including infrastructure assets are properly capitalized, reported and if applicable depreciated.

    c) Applicable laws and regulations are followed in adopting, approving and amending budgets.

    d) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

    e) Revenues are appropriately classified in the statement of activities.

    f) Deposits and investment securities are properly classified in category of custodial credit risk.

    g) Required supplementary information is measured and presented within prescribed guidelines.

2. The Authority has made available to you all:

    a. Financial records and related data.

    b. Minutes of the meetings and summaries of actions of the Board of Directors from October 1, 2007 to the date of this letter. Board meetings were conducted on the following dates:

October 2, 2007	November 20, 2007
November 6, 2007	December 6, 2007
December 20, 2007	January 4, 2008
February 5, 2008	February 21, 2008
March 4, 2008	March 11, 2008
March 28, 2008	April 1, 2008
April 10, 2008	April 23, 2008
May 6, 2008	May 8, 2008
June 3, 2008	June 10, 2008
June 18, 2008	June 26, 2008
July 1, 2008	August 5, 2008
September 2, 2008	September 5, 2008
September 16, 2008	November 4, 2008
December 2, 2008	December 19, 2008
January 29, 2008	January 6, 2009

January 16, 2009
February 3, 2009
March 3, 2009
February 10, 2009
February 26, 2009
March 4, 2009

3. There have been no:

   - Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have material effect on the financial statements.

   - Action taken by Authority management that contravenes the provisions of federal laws and Federated States of Micronesia (FSM) laws and regulations.

4. 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.

5. The Authority has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However management has made available to you their understanding about the risk of fraud in the Authority and do not believe that the financial statements are materially misstated as a result of fraud.

6. 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.

7. 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.

8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies* except for as disclosed in note 5 to the financial statements as follows:

   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 financial statements.

9. 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 $13,740 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.

10. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

11. All leases and material amounts future rental revenue under long-term leases, to the extent applicable, have been appropriately identified and disclosed in note 7 to the financial statements.

12. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

13. The Authority is a component unit of Pohnpei State Government and is affiliated with other government agencies.

14. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, written or oral.

    b. Guarantees, whether written or oral, under which the Authority is contingently liable.

15. 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.

16. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements.

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

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. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*.

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.

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. No department or agency of the Authority has reported a material instance of noncompliance to us.

21. No events have occurred subsequent to September 30, 2008 that requires consideration as adjustments to or disclosure in the financial statements.

22. No changes in internal control or other factors have occurred that might significantly affect the internal control subsequent to September 30, 2008, including any corrective action taken by management with regard to significant deficiencies in material weakness.

23. The Authority has determined whether a capital asset has been impaired in accordance with GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* In making this determination, the Authority considered the following factors: (i) the magnitude of the decline in service utility is significant; and (ii) the decline is service utility is unexpected.

24. The Authority has no arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit or similar arrangements. We do not require collateralization on our Authority accounts due to our confidence in the financial strength of the respective banking institution utilized.

25. The Authority purchases insurance to cover workmen's compensation and life insurance risks. The Authority 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.

26. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before September 30, 2008 and have been appropriately to their estimated net realizable value. The Authority is responsible for determining and maintaining the adequacy of the allowance for uncollectible receivables, as well as estimates used to determine such amounts.

27. 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.

28. 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.

29. 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.

30. 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.

31. 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.

32. 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.

Ieske Iehsi, General Manager

4/28/09
Date

Luz Merencillo, Comptroller

4-27-09
Date

Entry Description	Type of Entry	Balance Sheet: Assets Dr (Cr)	Balance Sheet: Liabilities Dr (Cr)	Balance Sheet: Retained Dr (Cr)	Balance Sheet: Other Dr (Cr)	Income Statement: Income Dr (Cr)	Income Statement: Income Dr (Cr)	Income Statement: Disc. Dr (Cr)	Total Equal 0
PAJE <1> To correct recording of local grant revenue									0
Expenditure - reef marker/ supplies & materials	Known					4,968			4,968
Revenue - local grant (reef marker)	Known					(4,968)			(4,968)
									0
PAJE <2> To record difference in the transhipment revenue.									0
Revenue - transhipment revenue	Likely					18,821			18,821
Accounts Receivable	Likely	(18,821)							(18,821)
									0
PAJE <3> To reverse non-valid payroll outstanding check.									0
Cash	Known	11,571							11,571
Accounts Payable	Known		(11,571)						(11,571)
									0
PAJE <4> To reverse recording of prepayment of CTSI.									0
Accounts Payable	Known		8,296						8,296
Prepayment	Known	(8,296)							(8,296)
									0
PAJE <5> To provide allowance for MOBIL - AR.									0
Bad debts	Likely					7,596			7,596
Allowance for doubtful accounts	Likely	(7,596)							(7,596)
									0
PAJE <6> To record difference in the boat revenue.									0
Accounts Receivable	Likely	32,125							32,125
Boat Moves Revenue	Likely					(32,125)			(32,125)
									0
PAJE <7> To record error noted in the anchorrage revenue for PMS.									0
Accounts receivable	Known	6,521							6,521
Revenue	Known					(6,521)			(6,521)
PAJE <7> To accrue repairs on roof.									0
Expense	Known					6,716			6,716
Accounts payable.	Known		(6,716)						(6,716)
									0
									0
	0	15,504	(9,991)	0	0	(5,513)	0	0	0

The above uncorrected misstatements of the current year are a result of error and not of fraud.

Concurred by:

Ieske Iehsi, General Manager — 4/28/09 Date

Luz Merencillo, Comptroller — 4-27-09 Date