POHNPEI PORT AUTHORITY

(A COMPONENT UNIT OF THE STATE OF POHNPEI)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

POHNPEI PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF POHNPEI)

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Years Ended September 30, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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 - 9 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 June 18, 2010, 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

June 18, 2010

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, 2009. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's operating revenues increased by $491,417 or 22% compared to fiscal year 2008 due to a 32% increase from seaport charges.
- For fiscal year 2009, the Authority's operating expenses were $94,010 or 4% less than last year's mainly due to significant decreases in repairs and legal and professional fees.
- Earnings from operation were posted at $305,227; rebounding from last year's ($594,651).
- Liabilities of $312,873 were 10% lower than the previous year.
- Capital assets decreased by 4% due to 20% increase in depreciation.
- The Authority's net assets were higher by $320,945 or 4% than fiscal year 2008.

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 Statements of Revenues, Expenses and Changes in Net Assets

The Statement of Net Assets and Statements 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

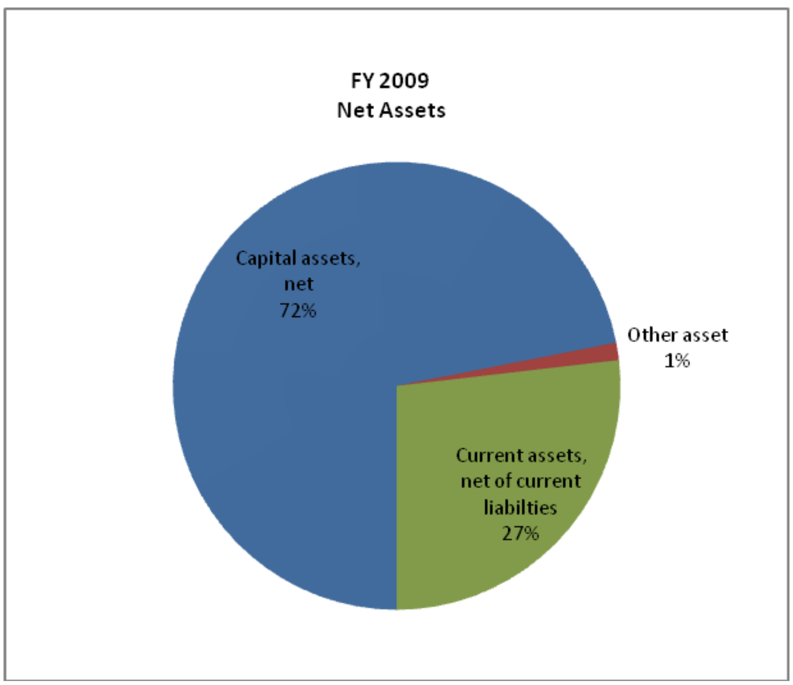
Net Assets

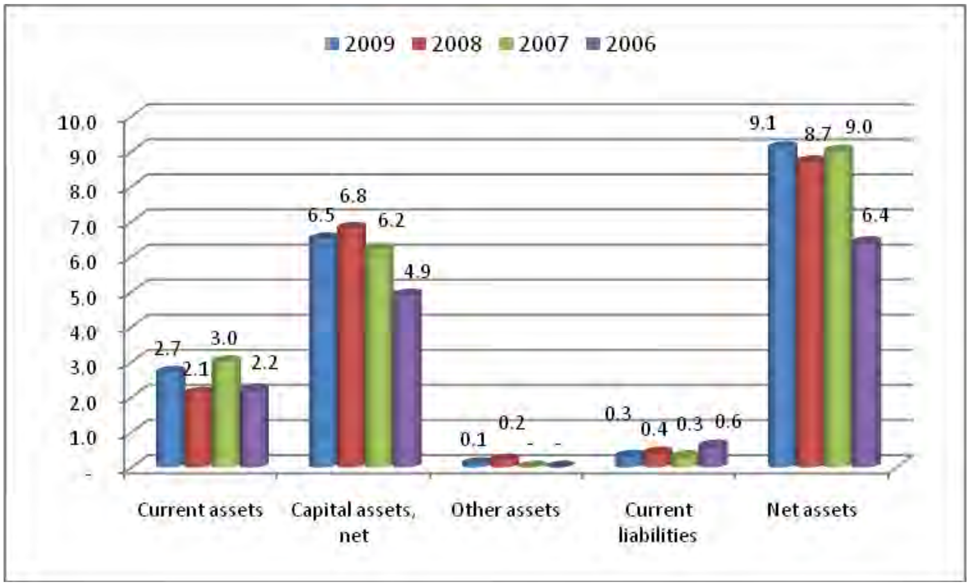
Net assets increased by $320,945 or 4%. Current assets increased by $652,267 or 31% as a result of a 25% increase in bank balances and a 108% increase in trade receivables; liabilities decreased by $36,593 or 10%; and capital assets and other assets, respectively, declined by 4% and 43% due to increases in depreciation and amortization. The following summarizes the Authority's financial condition for fiscal years 2007 to 2009:

POHNPEI PORT AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2009 and 2008

	2009	2008	FY 09 vs FY 08 Increase(decrease)		2007
Current assets	$2,745,010	$2,092,743	$652,267	31%	$3,004,573
Capital assets, net	6,514,676	6,796,983	(282,307)	-4%	6,207,246
Other assets	114,144	199,752	(85,608)	-43%	-
Total assets	9,373,830	9,089,478			9,211,819
Current liabilities	312,873	349,466			255,596
Total liabilities	312,873	349,466	(36,593)	-10%	255,596
Net assets					
Invested in capital assets	6,514,676	6,796,983			6,207,246
Unrestricted	2,546,281	1,943,029			2,748,977
Total net assets	$9,060,957	$8,740,012	$320,945	4%	$8,956,223





Changes in Net Assets

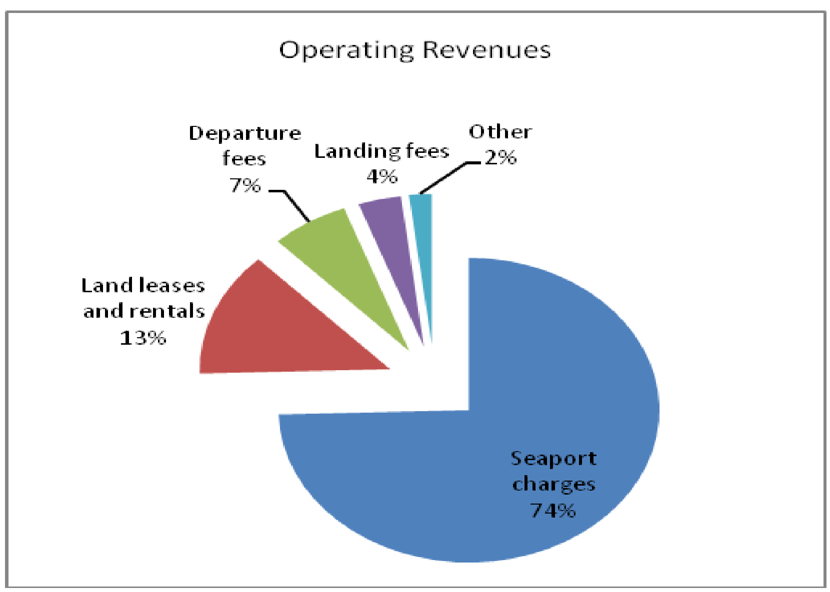
Net earnings increased by 248% from ($216,211) in fiscal year 2008 mainly due to the 32% increase in seaport revenues. Overall operating revenues increased by 22% while operating expenses decreased by 4%. Although depreciation and amortization increased by 20% from last year, management was able to streamline other operating expenses thus reversing the negative results of operations of the previous year.

The Authority's changes in net assets for fiscal years 2007 to 2009 are as follows:

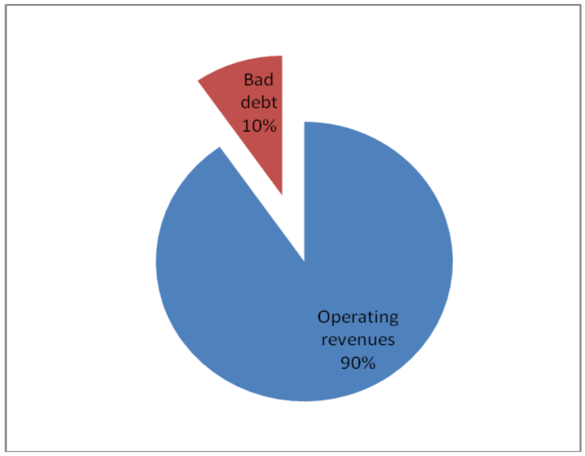
	2009	2008	FY 2009 vs FY 2008 Increase(decrease)		2007
Operating revenues:					
Seaport charges	$1,999,945	$1,512,708	$ 487,237		$2,163,669
Land leases and space rentals	357,781	360,599	(2,818)		381,823
Departure fees	176,050	179,710	(3,660)		181,360
Landing fees	97,639	95,729	1,910		101,880
Other	51,832	43,084	8,748		12,820
Total operating revenues	2,683,247	2,191,830	491,417	22%	2,841,552
Bad debt expense, net of recoveries	287,015	601,466	(314,451)	-52%	60,374
Net operating revenue	2,396,232	1,590,364	805,868		2,781,178
Operating expenses:					
Salaries and benefits	971,586	990,821	(19,235)		817,397
Depreciation and amortization	561,973	469,988	91,985		255,581
Repairs and maintenance	60,092	210,254	(150,162)		64,456
Utilities	112,942	123,419	(10,477)		87,523
Travel	111,116	100,260	10,856		75,912

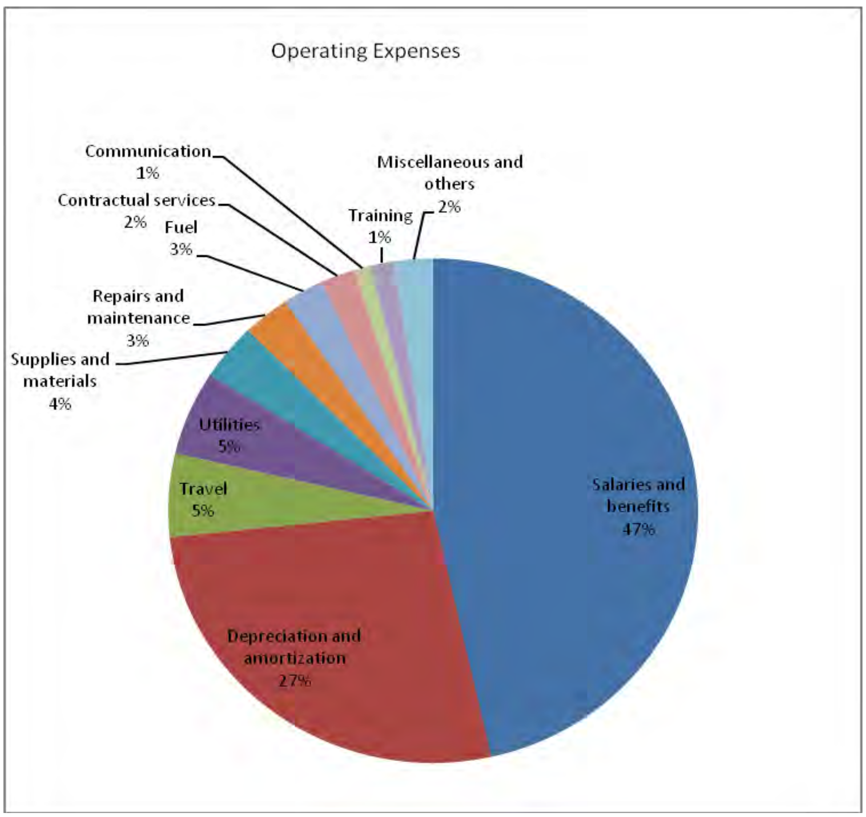
Legal and professional services	44,128	77,646	(33,518)		51,824
Supplies and materials	75,465	60,899	14,566		63,264
Fuel	52,820	60,810	(7,990)		43,859
Communication	21,092	23,465	(2,373)		25,984
Training	30,313	18,417	11,895		17,840
Miscellaneous and others	49,478	49,036	442		43,411
Total operating expenses	2,091,005	2,185,015	(94,010)	-4%	1,547,051
Earnings (loss) from operations	305,227	(594,651)	899,878		1,234,127
Nonoperating revenues (expenses):					
Federal grants	-	-			-
Interest income	15,718	29,814			18,952
Other nonoperating income	-	-			133
Total nonoperating revenues, net	15,718	29,814	(14,096)	-47%	19,085
Capital contribution	-	348,626	(348,626)	-100%	1,269,005
Change in net assets	$ 320,945	$ (216,211)	$ 537,156	248%	$2,522,217

For the year ended September 30, 2009, the Authority's operating revenues, bad debt and operating expenses are as follows:



The Authority charged off bad debts of $287,015, 68% of which stemmed from the delinquent account of a seaport agent. At the end of 2009, total bad debts provision was 78% of receivables.

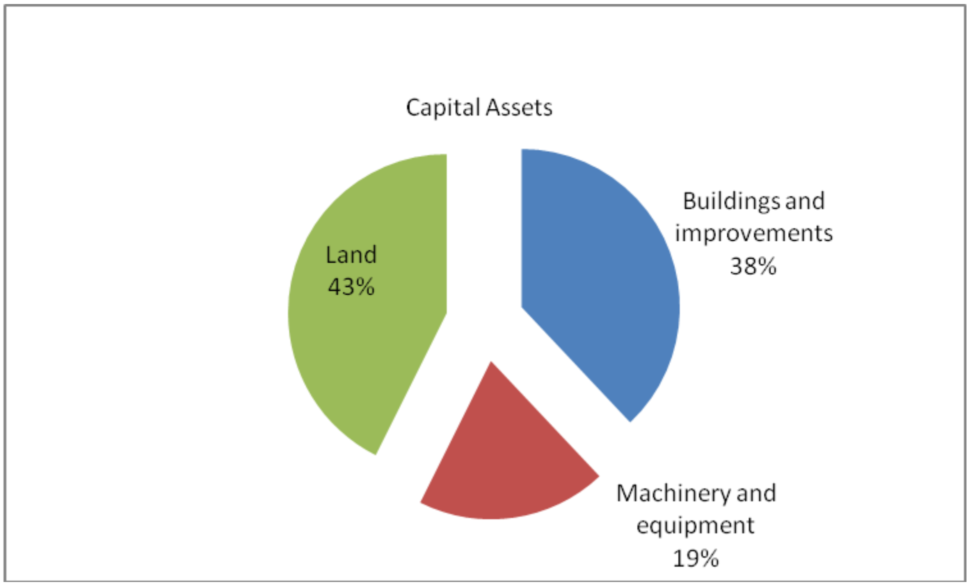




Capital Assets

As of September 30, 2009, the Authority's investment in capital assets is valued at $6,514,676. Depreciation of $476,365 and asset deletions and transfers of $98,473 exceed by $282,307 the asset acquisitions. The capital asset expenditure during the year includes the seaport and airport security outposts, equipment garage and warehouse, storeroom and small boat shed, vehicles, copier, and pole mounted transformers. For additional information on capital assets, please refer to note 4 to the financial statements.

	Cost	Accumulated depreciation	Book Value
Buildings and improvements	$ 14,841,468	$ (12,368,167)	$ 2,473,301
Machinery and equipment	2,304,129	(1,038,788)	1,265,341
Land	2,776,034	-	2,776,034
Total	$ 19,921,631	$ (13,406,955)	$ 6,514,676



Long-Term Debt

The Authority did not have any long-term debt or long-term liabilities existing at September 30, 2009, 2008 and 2007.

Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in the Authority's report on the audit of financial statements, which is dated April 24, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at www.fsmopa.fm.

Economic Outlook

The ongoing airport improvement projects from the United States Federal Aviation Administration and Japan International Cooperation Agency are tentatively scheduled for completion in fiscal year 2011. The FAA Grant provides for the reservicing, pavement and fencing of the runway; apron renovation; construction of turning basin; and construction of the Airport Rescue and Firefighters building that shall also house the two new fire trucks received in previous years. The JICA project includes extension of the runway; apron expansion; renovation and expansion of passenger terminal building; baggage handling system; x ray screening device; and baggage trolleys.

In response to Pohnpei State Government's request through the FSM National Government, the Authority is recipient of technical assistance for infrastructure improvement of the seaport from Asian Development Bank through the Pacific Infrastructure Advisory Council. The ongoing scoping study conducted by the Pacific Region Infrastructure Facility involves the business and operational assessment of the port; the need for port upgrading or expansion; institutional analysis of PPA and other agencies involved in Pohnpei port operations and management; and preparation of strategy for improved port service delivery with emphasis on performance and profitability of operations. The study that commenced in June, 2010 is projected to be completed in August, 2010.

In addition to the foregoing, the Authority's fiscal year 2011 budget for capital improvements allocated $417,000 to improve the airport terminal lobby, parking lot and A&E design of the hangar, and $500,000 to replace the dock fenders.

The completion of the airport and seaport infrastructure projects shall impact the Authority's operation. With the development of the Pohnpei International Airport, management anticipates higher cost for utilities, security and maintenance of airport facilities and equipment. However, alongside the Primary Government's objective of promoting tourism and attracting foreign investments, the Authority looks forward to the influx of visitors to the island and increased collection of airport utilization fees. Also, the result of the seaport scoping study is expected to provide recommendations on operational efficiency and effectiveness, commercial viability of the port as well as address concerns in deepening and widening of the channel.

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, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash and cash equivalents	$ 2,328,412	$ 1,862,731
Accounts receivable, net	412,933	197,695
Advances	3,665	20,166
Prepaid expenses	-	12,151
Total current assets	2,745,010	2,092,743
Replacement parts, net of amortization of $85,608 and $57,072 at September 30, 2009 and 2008, respectively	114,144	199,752
Property and equipment, net	6,514,676	6,796,983
	$ 9,373,830	$ 9,089,478
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 144,663	$ 204,150
Due to FSM National Government	78,186	78,186
Accrued liabilities and others	16,789	-
Accrued annual leave	73,235	67,130
Total current liabilities	312,873	349,466
Commitments and contingency		
Net assets:		
Invested in capital assets	6,514,676	6,796,983
Unrestricted	2,546,281	1,943,029
Total net assets	9,060,957	8,740,012
	$ 9,373,830	$ 9,089,478

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Seaport charges	$ 1,999,945	$ 1,512,708
Land leases and space rentals	357,781	360,599
Departure fees	176,050	179,710
Landing fees	97,639	95,729
Other	51,832	43,084
Total operating revenues	2,683,247	2,191,830
Less allowance for doubtful debts	(287,015)	(601,466)
Net operating revenue	2,396,232	1,590,364
Operating expenses:		
Salaries and benefits	971,586	990,821
Depreciation and amortization	561,973	469,988
Utilities	112,942	123,419
Travel	111,116	100,260
Supplies and materials	75,465	60,899
Repairs	60,092	210,254
Fuel	52,820	60,810
Contractual services	44,128	77,646
Training	30,313	18,417
Communication	21,092	23,465
Miscellaneous and others	49,478	49,036
Total operating expenses	2,091,005	2,185,015
Earnings (loss) from operations	305,227	(594,651)
Nonoperating revenues:		
Interest income	15,718	29,814
Total nonoperating revenues	15,718	29,814
Capital contributions	-	348,626
Change in net assets	320,945	(216,211)
Net assets at beginning of year	8,740,012	8,956,223
Net assets at end of year	$ 9,060,957	$ 8,740,012

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 2,180,994	$ 1,885,866
Cash paid to suppliers for goods and services	(587,991)	(651,508)
Cash paid to employees	(948,982)	(996,437)
Net cash provided by operating activities	644,021	237,921
Cash flows from capital and related financing activities:		
Contributions from Pohnpei State	-	28,180
Acquisition of property and equipment	(194,058)	(900,974)
Net cash used in capital and related financing activities	(194,058)	(872,794)
Cash flows from investing activities:		
Interest income	15,718	29,814
Net cash provided by investing activities	15,718	29,814
Net change in cash and equivalents	465,681	(605,059)
Cash and cash equivalents at beginning of year	1,862,731	2,467,790
Cash and cash equivalents at end of year	$ 2,328,412	$ 1,862,731
Reconciliation of earnings (loss) from operations to net cash provided by operating activities:		
Earnings (loss) from operations	$ 305,227	$ (594,651)
Adjustments to reconcile earnings (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	561,973	469,988
Bad debts	287,015	601,466
(Increase) decrease in assets:		
Accounts receivable	(502,252)	(300,996)
Advances	16,501	(9,728)
Prepaid expense	12,151	(11,960)
Replacement parts	-	(9,877)
Increase (decrease) in liabilities:		
Accounts payable	(59,487)	118,734
Accrued liabilities and others	16,789	(14,471)
Accrued annual leave	6,104	(5,616)
Deferred revenue	-	(4,968)
Net cash provided by operating activities	$ 644,021	$ 237,921

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.

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 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 – and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, 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, net assets are presented in the following categories:

- Invested 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, 2009 and 2008, the carrying amount of the Authority's total cash and cash equivalents was $2,328,412 and $1,862,731, respectively, and the corresponding bank balance was $2,344,547 and $1,876,809, respectively which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of $500,000 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 due from 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. Replacement parts are carried at cost or estimated fair value at the date of contribution, less amortization using the straight-line method 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. All of the assets have an estimated useful life of two to seventy years. 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.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements in order to conform with the 2009 presentation.

New Accounting Standards

During fiscal year 2009, the Authority implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which 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.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which 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 June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. The impact that the implementation of this statement will have on the financial statements of the Authority has not been determined.

(3) Accounts Receivable

The detail of accounts receivable, net of allowance for doubtful debts, at September 30, 2009 and 2008, is as follows:

	2009	2008
Accounts receivable	$ 1,867,804	$ 1,365,550
Less allowance for doubtful debts	(1,454,871)	(1,167,855)
	$ 412,933	$ 197,695

(4) Property and Equipment

Capital asset activity for the years ended September 30, 2009 and 2008, was as follows:

	Estimated Useful Lives	Balance at October 1, 2008	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2009
Non-depreciable:					
Land		$ 2,776,034	$ -	$ -	$ 2,776,034
Depreciable:					
Buildings and improvements	7 to 70 years	14,741,817	100,003	(352)	14,841,468
Machinery and equipment	3 - 5 years	2,308,195	94,055	(98,121)	2,304,129
		17,050,012	194,058	(98,473)	17,145,597
Less accumulated depreciation		(13,029,063)	(476,365)	98,473	(13,406,955)
		4,020,949	(282,307)	-	3,738,642
Net investment in property and equipment		$ 6,796,983	$ (282,307)	$ -	$ 6,514,676

	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
Less accumulated depreciation		(12,657,005)	(412,916)	40,858	(13,029,063)
		3,130,623	890,326	-	4,020,949
Net investment in property and equipment		$ 6,207,246	$ 890,326	$ (300,589)	$ 6,796,983

(4) Property and Equipment, Continued

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
2010	$ 255,011
2011	204,079
2012	201,901
2013	201,901
2014	201,901
2015 - 2019	956,766
2020 - 2023	355,807
	$ 2,377,366

(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 7.5 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, 2009, 2008 and 2007 were $32,484, $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, 2009 and 2008, plan assets were $288,557 and $205,587, respectively.

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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, 2009, and have issued our report thereon dated June 18, 2010. 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity'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 June 18, 2010.

This report is intended solely for the information and use of management and the Board of Directors of the Authority the cognizant audit and other federal agencies, and the Office of the National Public Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

June 18, 2010