

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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

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Years Ended September 30, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Kosrae Port Authority:

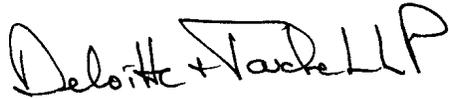
We have audited the accompanying statements of net assets of the Kosrae Port Authority (the Authority), a component unit of the State of Kosrae, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 Kosrae Port Authority as of September 30, 2010 and 2009, 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 - 4 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 7, 2011, 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

June 7, 2011

KOSRAE PORT AUTHORITY

Management's Discussion and Analysis Year Ended September 30, 2010

This analysis prepared by Kosrae Port Authority (Authority) offers readers of the Authority's financial statements a narrative overview of its activities for fiscal year ended September 30, 2010. This analysis is required by the Governmental Accounting Standards Board (GASB), which provide guidelines on what must be included and excluded from the analysis.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provides an indication of the Authority's financial condition. The Authority's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in the Authority's financial condition.

The following summarizes the financial position and results of operations of Kosrae Port Authority for the fiscal years 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>(Unaudited) 2008</u>
Assets:			
Current assets	\$ 55,140	\$ 69,493	\$ 93,749
Property and equipment, net	<u>18,668,442</u>	<u>11,804,859</u>	<u>12,381,647</u>
Total assets	\$ <u>18,723,582</u>	\$ <u>11,874,352</u>	\$ <u>12,475,396</u>
Liabilities and Net Assets:			
Current liabilities	\$ 114,964	\$ 107,595	\$ 24,407
Net assets:			
Invested in capital assets	18,668,442	11,804,859	12,450,989
Unrestricted	<u>(59,824)</u>	<u>(38,102)</u>	<u>-</u>
Total liabilities and net assets	\$ <u>18,723,582</u>	\$ <u>11,874,352</u>	\$ <u>12,475,396</u>
Revenues, Expenses and Changes in Net Assets:			
Operating revenues	\$ 161,805	\$ 127,903	\$ 97,630
Operating expenses	<u>(1,045,521)</u>	<u>(808,326)</u>	<u>(606,846)</u>
Net operating loss	<u>(883,716)</u>	<u>(680,423)</u>	<u>(509,216)</u>
Non-operating expenses	-	(3,809)	(1)
Capital contributions	<u>7,725,577</u>	<u>-</u>	<u>12,960,206</u>
Change in net assets	6,841,861	(684,232)	12,450,989
Net assets at beginning of the year	<u>11,766,757</u>	<u>12,450,989</u>	<u>-</u>
Net assets at the end of the year	\$ <u>18,608,618</u>	\$ <u>11,766,757</u>	\$ <u>12,450,989</u>

KOSRAE PORT AUTHORITY

Management's Discussion and Analysis, Continued
Year Ended September 30, 2010

Financial Highlights

The Authority's total assets for fiscal year 2010 are comprised of the net amount of its cash, accounts receivable, and net, property and equipment. The property and equipment were transferred from the Kosrae State Government in July 2008. The huge increase in the property and equipment for the year 2010 is due to the capital contribution of \$7,725,577 for various airport improvement projects which are jointly funded by the US Federal Aviation Administration and the FSM National Government. For additional information with respect to capital assets, please see Note 4 to the financial statements.

Current liabilities comprise accounts payable, accrued liabilities others, and the due to primary government of \$72,174 which was mentioned in the last audit report. There has not been any formal discussion or negotiation on how to settle this debt. The Authority would like to eventually settle for a write off based on a verbal agreement during the Transfer Negotiation made in July 2008 with the previous Administration.

Operating revenues are mainly from airport landing fees, sea port charges and departure fees.

Depreciation expense comprised 82.45% of total operating expenses while salaries and benefits registered 10.15%. Other expenses such as utilities, fuel, communications, travel, and others totaling to \$74,541 consisted 7.13% of the total operating expenses. Miscellaneous expense of \$2,841 is .27% of the total operating expenses.

Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in the Authority's report on the audit of financial statements, which is dated June 8, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm

Economic factors and Next Year's Budget

Currently, Kosrae Port Authority is experiencing the downturn effect of the reduction in airline flights which started in January 2011. Two flights a week were affected, the in and out bound flights. The effect is a decline in revenues generated from airport landing fees and departure fees. The total operation budget for FY 2011 is approved for \$165,000; although, the revenue sources are still limited. The ensuing year is facing a big challenge unless revenues increase. Management is contemplating the increase of tariff structures which would change departure fees and other port charges. Management will submit the recommendation to the Board for consideration and deliberation. It is expected that the process would be lengthy and therefore would not be able to assist in the FY 2011 operation. Also due to the limitation of revenues, key positions like the General Manager, and a Legal Counsel are still not filled.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, creditors, and other interested parties a general overview of Kosrae Port Authority's finances. If you have questions about this report or need additional financial information, contact the Office of the General Manager at P. O. Box 960, Tofol, Kosrae FM 96944.

KOSRAE PORT AUTHORITY

Statements of Net Assets September 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash	\$ 50,405	\$ 53,333
Accounts receivable, net	<u>4,735</u>	<u>16,160</u>
Total current assets	55,140	69,493
Property and equipment, net	<u>18,668,442</u>	<u>11,804,859</u>
	<u>\$ 18,723,582</u>	<u>\$ 11,874,352</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 13,174	\$ 11,884
Accrued liabilities and others	29,616	23,537
Due to primary government	<u>72,174</u>	<u>72,174</u>
Total liabilities	<u>114,964</u>	<u>107,595</u>
Contingencies		
Net assets:		
Invested in capital assets	18,668,442	11,804,859
Unrestricted	<u>(59,824)</u>	<u>(38,102)</u>
Total net assets	<u>18,608,618</u>	<u>11,766,757</u>
	<u>\$ 18,723,582</u>	<u>\$ 11,874,352</u>

See accompanying notes to financial statements.

KOSRAE PORT AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Assets Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Charges for service	\$ 169,370	\$ 171,141
Less allowance for doubtful debts	<u>(7,565)</u>	<u>(43,238)</u>
Net operating revenue	<u>161,805</u>	<u>127,903</u>
Operating expenses:		
Depreciation and amortization	861,994	572,979
Salaries and benefits	106,145	106,998
Utilities	37,609	36,088
Travel	19,226	385
Supplies and materials	8,783	6,408
Repairs	4,220	857
Communication	2,215	2,525
Freight and handling	1,133	785
Representation and entertainment	965	838
Bank service charges	223	259
Fuel	167	4,408
Taxes	-	1,230
Contractual services	-	771
Miscellaneous and others	<u>2,841</u>	<u>73,795</u>
Total operating expenses	<u>1,045,521</u>	<u>808,326</u>
Loss from operations	<u>(883,716)</u>	<u>(680,423)</u>
Nonoperating expenses:		
Loss on disposal of assets	<u>-</u>	<u>(3,809)</u>
Loss before capital contributions	(883,716)	(684,232)
Capital contributions:		
FSM National Government	<u>7,725,577</u>	<u>-</u>
Change in net assets	6,841,861	(684,232)
Net assets at beginning of year	<u>11,766,757</u>	<u>12,450,989</u>
Net assets at end of year	<u>\$ 18,608,618</u>	<u>\$ 11,766,757</u>

See accompanying notes to financial statements.

KOSRAE PORT AUTHORITY

Statements of Cash Flows Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$ 173,230	\$ 165,405
Cash paid to suppliers for goods and services	(76,043)	(56,302)
Cash paid to employees	<u>(100,115)</u>	<u>(95,858)</u>
Net cash (used in) provided by operating activities	<u>(2,928)</u>	<u>13,245</u>
Net change in cash	(2,928)	13,245
Cash at beginning of year	<u>53,333</u>	<u>40,088</u>
Cash at end of year	<u>\$ 50,405</u>	<u>\$ 53,333</u>
Reconciliation of loss from operations to net cash (used in) provided by operating activities:		
Loss from operations	\$ (883,716)	\$ (680,423)
Adjustments to reconcile loss from operations to net cash (used in) provided by operating activities:		
Depreciation and amortization	861,994	572,979
Bad debts	7,565	43,238
(Increase) decrease in assets:		
Accounts receivable	3,860	(8,039)
Other	-	2,302
Increase in liabilities:		
Accounts payable	1,290	6,519
Accrued liabilities and others	6,079	4,495
Due to primary government	<u>-</u>	<u>72,174</u>
Net cash (used in) provided by operating activities	<u>\$ (2,928)</u>	<u>\$ 13,245</u>

Summary of Noncash Financing Activities:

During the year ended September 30, 2010, the Authority received \$7,725,577 of capital assets contributed from the FSM National Government.

See accompanying notes to financial statements.

KOSRAE PORT AUTHORITY

Notes to Financial Statements
September 30, 2010 and 2009

(1) Reporting Entity

The Kosrae Port Authority (the Authority), a component unit of the Kosrae State Government, was established by Kosrae State Public Law 7-91. The primary purpose of the Authority is to oversee the use and maintenance of Kosrae State's sea and air ports. The Authority began operating as a separate entity in fiscal year 2008, although the accounting for the Authority was not transferred from the Kosrae State Department of Administration and Finance until July 1, 2008.

The Authority is governed by a five-member Board of Directors. The Board is composed of four directors appointed by the Governor with the advice and consent of the Legislature, and, ex-officio, the Director of the Department of Transportation and Infrastructure. An appointed director serves for a term of four years, subject to reappointment, and until his successor has been appointed and qualifies. The Governor appoints two directors to two-year terms and two directors to four-year term.

The Authority's financial statements are incorporated into the financial statements of the Kosrae 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 - 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 which require that 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, the Authority's equity is presented in the following net asset 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.

KOSRAE PORT AUTHORITY

Notes to Financial Statements
September 30, 2010 and 2009

(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

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, 2010 and 2009, 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, 2010 and 2009, bank deposits were fully FDIC insured.

Receivables

The Authority's accounts receivable are mostly with businesses and individuals based in Kosrae State that relate to space rentals, landing fees, port and handling charges, 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.

KOSRAE PORT AUTHORITY

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

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 \$100,000.

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 2010, the Authority implemented the following pronouncements:

- GASB 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.
- GASB 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.
- GASB 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.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Authority.

KOSRAE PORT AUTHORITY

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Authority.

(3) Accounts Receivable

The detail of accounts receivable, net of allowance for doubtful debts, at September 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Accounts receivable	\$ 55,538	\$ 59,398
Less allowance for doubtful debts	(50,803)	(43,238)
	<u>\$ 4,735</u>	<u>\$ 16,160</u>

(4) Property and Equipment

Capital asset activity for the years ended September 30, 2010 and 2009, was as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2009</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2010</u>
Depreciable:					
Buildings and improvements	7 to 70 years	\$ 1,818,128	\$ 6,800,609	\$ -	\$ 8,618,737
Machinery and equipment	3 to 5 years	-	924,968	-	924,968
Infrastructure	7 to 70 years	<u>37,972,012</u>	<u>-</u>	<u>-</u>	<u>37,972,012</u>
		39,790,140	7,725,577	-	47,515,717
Less accumulated depreciation		(27,985,281)	(861,994)	-	(28,847,275)
Net investment in property and equipment		<u>\$ 11,804,859</u>	<u>\$ 6,863,583</u>	<u>\$ -</u>	<u>\$ 18,668,442</u>

KOSRAE PORT AUTHORITY

Notes to Financial Statements September 30, 2010 and 2009

(4) Property and Equipment, Continued

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2008</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2009</u>
Depreciable:					
Buildings and improvements	7 to 70 years	\$ 1,818,128	\$ -	\$ -	\$ 1,818,128
Machinery and equipment	3 to 5 years	152,350	-	(152,350)	-
Infrastructure	7 to 70 years	<u>37,972,012</u>	<u>-</u>	<u>-</u>	<u>37,972,012</u>
		39,942,490	-	(152,350)	39,790,140
Less accumulated depreciation		<u>(27,560,843)</u>	<u>(572,979)</u>	<u>148,541</u>	<u>(27,985,281)</u>
Net investment in property and equipment		\$ <u>12,381,647</u>	\$ <u>(572,979)</u>	\$ <u>(3,809)</u>	\$ <u>11,804,859</u>

(5) Risk Management

The Authority purchases insurance to cover life insurance risks. However, the Authority does not purchase insurance to cover risks associated with its buildings and other fixed assets. Management is of the opinion that no material losses have been sustained as a result of this practice since the inception of its operations in July 2008.

(6) Future Rental Revenues

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

<u>Year ending September 30,</u>	<u>Total</u>
2011	\$ <u>11,815</u>

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
Kosrae Port Authority:

We have audited the financial statements of the Kosrae Port Authority (the Authority) as of and for the year ended September 30, 2010, and have issued our report thereon dated June 7, 2011. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

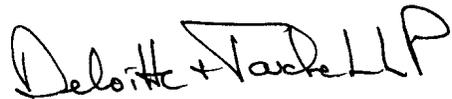
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 and 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 7, 2011.

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

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

June 7, 2011

KOSRAE PORT AUTHORITY

Summary Schedule of Prior Year Findings
Years Ended September 30, 2010 and 2009

There are no prior year findings unresolved as of September 30, 2010.