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May 5, 2011

The Board of Directors
Pohnpei Port Authority

Dear Members of the Board:

We have performed an audit of the financial statements of the Pohnpei Port Authority (the Authority), a component unit of the Pohnpei State Government, as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated May 5, 2011.

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 ("generally accepted auditing standards") 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 January 13, 2011. 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, 2010 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, 2010 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 2010 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, 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, 2010, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS

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 proposed adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2010 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Authority's significant accounting policies are set forth in Note 2 to the Authority's 2010 financial statements. During the year ended September 30, 2010, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority:

- GASB Statement No. 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 financial statements.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Authority's 2010 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 2010 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 2010 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 2010.

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

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR RETENTION AS AUDITORS

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, also dated May 5, 2011, wherein no matters involving the Authority's internal control over financial reporting that were considered to be 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 May 5, 2011, 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 write off the asset		
1627- ADM	Terminal parking lot	-	30,000.00
1629- ADM	Acc. Dep'n.- Terminal parking lot	16,750.00	-
DTT-2010.1	Loss on disposal of asset	13,250.00	-
		0.00	0.00
	To write off the parking lot that is not in existence due to the Airport project		
	3 AJE To increase the allowance		
5553	Bad debts	50,423.58	-
1102- ADM	Allow. D/A- Trade receivable	-	50,423.58
		0.00	0.00
	To increase the allowance for bad debt		

I have reviewed the adjustments above and authorize that they be recorded in the general ledger as of September 30, 2010. The adjustments are the result of errors and are not the result of fraud of fraud or illegal acts.

Nelperson Etse
General Manager

5-11-11
Date

Luz Merencillo
Comptroller

5-11-11
Date

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May 5, 2011

Deloitte & Touche LLP
361 South Marine Corps Drive
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Gentlemen:

We are providing this letter in connection with your audits of the statements of net assets of the Pohnpei Ports Authority (the Authority), a component unit of the Pohnpei State Government, as of September 30, 2010 and 2009, and the related statements of revenue, expenses, and changes in net assets and 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 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 financial statements of financial position, results of operations, and cash flows in conformity with GAAP.

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.

e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association.

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

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

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

    a. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.

    b. 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.

    c. Revenues are appropriately classified in the statement of activities.

    d. Deposits are properly classified in category of custodial credit risk.

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

    f. Required supplementary information is measured and presented within prescribed guidelines.

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

2. The Authority has made available to you all:

    a. Minutes of the meetings and summaries of actions of the Board of Directors from October 1, 2010 to the date of this letter. Board meetings were held on the following dates:

October 13, 2009	October 27,2009	November 15,2009	November 23,2009
November 26,2009	December 1,2009	December 8, 2009	December 18,2009
December 22,2009	January 5,2010	January 5, 2010	January 15, 2010
January 19, 2010	February 2, 2010	February 3, 2010	February 5, 2010
February 11, 2010	February 24, 2010	March 2, 2010	March 11, 2010
April 6, 2010	April 26, 2010	April 29, 2010	May 4, 2010
May 27, 2010	June 4, 2010	June 11, 2010	June 16, 2010
July 6, 2010	July 6, 2010	July 17, 2010	July 19, 2010
August 3, 2010	August 4, 2010	August 23, 2010	September 1, 2010
September 7, 2010	September 13, 2010	September 23, 2010	

    b. Financial records and related data for all financial transactions of the Authority. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Authority and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

    c. Contracts and grant agreements (including amendments, if any).

3. There has been no:

   a. Action taken by Authority management that contravenes the provisions of federal laws and Federated States of Micronesia (FSM) laws and regulations or of contracts and grants applicable to the Authority.

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

4. 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 risks of fraud in the Authority and do not believe that the financial statements are materially misstated as a result of fraud.

5. We have no knowledge of any fraud or suspected fraud affecting the Authority involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.

6. 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.

7. 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) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*), except as disclosed in note 5 to the basic financial statements.

8. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Authority's ability to initiate, record, process, and report financial information.

9. We are responsible for compliance with FSM laws, rules and regulations, and provision of grants and contracts relating to the Authority's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Authority is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

10. 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, matters less than $13,200 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

13. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

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

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

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

17. 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.

    c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

    d. Financial instruments with significant or group concentration of credit risk.

18. 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.

18. 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.

19. There are no:

    d. 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.

    e. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*), except as disclosed in note 5 to the basic financial statements.

20. 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.

21. The Authority has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

22. We believe that all expenditures that have been deferred to future periods are recoverable.

23. We have no intention of terminating our pension plan or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our pension plan to which we contribute. We believe that the actuarial assumptions and methods to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.

24. We do not plan to make frequent amendments to our pension plan.

25. No department or agency of the Pohnpei State Government or the U.S. Federal Government has reported a material instance of noncompliance to us.

26. We are aware of our requirement to disclose to you any change in the Authority's internal control over financial reporting that occurred during the Authority's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Authority's internal control over financial reporting and we advise you that no such changes have occurred that are reported to you.

27. The Authority has determined whether a capital asset has been impaired in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In making this determination, the Authority considered the following factors:

    a. The magnitude of the decline in service utility is significant.

    b. The decline in service utility is unexpected.

28. 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 institutions utilized.

29. The Authority carries insurance to cover workmen compensation and life insurance. 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.

30. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before September 30, 2010 and have been appropriately reduced to their estimated net realizable

31. With regard to the fair value measurements and disclosures of certain assets, we believe that:

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.

    b. The completeness and adequacy of the disclosures related to fair values are in conformity with GAAP.

    c. No events have occurred subsequent to September 30, 2010 that requires adjustment to the fair value measurements and disclosures included in the financial statements.

32. 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 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.

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.

33. We represent to you that, subsequent to September 30, 2010, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses).

34. The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

35. 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.

36. No events have occurred after September 30, 2010 but before May 5, 2011, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

Very truly yours,

5-11-11

Nelperson Etse — Date

General Manager

May 11, 2011

Luz Merencillo — Date

Comptroller