

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

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

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

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Pohnpei Port Authority:

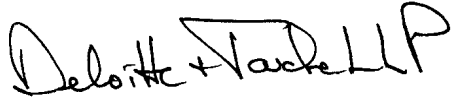
We have audited the accompanying statements of net assets of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. 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 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, 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 - 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 May 5, 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 + Touche LLP". The signature is written in a cursive, stylized font.

May 5, 2011

# POHNPEI PORT AUTHORITY

## Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

Our discussion and analysis of the Pohnpei Port Authority's ("the Authority") financial performance provides an overview of the Authority's financial activities for fiscal year ended September 30, 2010. Please read it in conjunction with the Authority's financial statements, which follow this section.

### **Financial Highlights**

- The Authority's operating revenues increased by \$105,841 or 4% compared to fiscal year 2009.
- Operating expenses were lower by \$27,724 or 1% than the previous year.
- Capital assets decreased by 5% due to higher depreciation against capital investments.
- Earnings from operations of \$561,020 were 84% higher than last year's \$305,227.
- Liabilities were reduced by \$50,239 or 16%.
- Net assets posted at \$9.6 M were 6% higher than prior year.

### **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 15<sup>th</sup> of each year. An annual budget may be amended at any time in the same manner as the adoption of the initial budget for that fiscal year. The Authority depends mainly on its generated revenues to sustain its operations. Seaport charges, departure fees, landing fees, land leases and space rentals are the major sources of revenues.

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

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets report the financial condition or position and results of operations of the Authority. They show the assets, liabilities and the difference between assets and liabilities. They report the information whether the Authority has sufficient resources to meet its current and long-term obligations as well. They show whether the Authority's financial health is improving, deteriorating or remaining steady compared with 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**

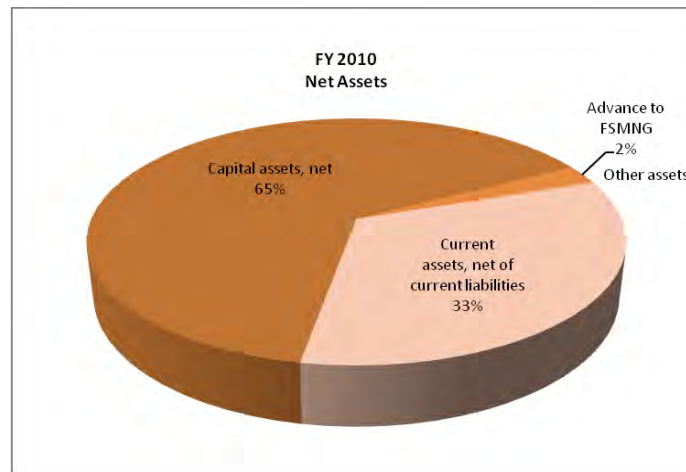
Current assets increased by \$681,045 or 25% as a result of increases in bank balances, advances and prepayments and a decrease in net receivables of \$169,809. The advance to the FSM National Government of \$229,868 represents matching funds required by the FAA Grant amendments for Pohnpei's International Airport Improvement Project. Capital assets and other assets declined by 5% and 75%, respectively, due to depreciation and amortization. On the other hand, liabilities decreased by 16%. Overall, net assets increased by \$561,463 or 6%.

# POHNPEI PORT AUTHORITY

## Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

The following summarizes the Authority's financial condition for fiscal years 2008 to 2010:

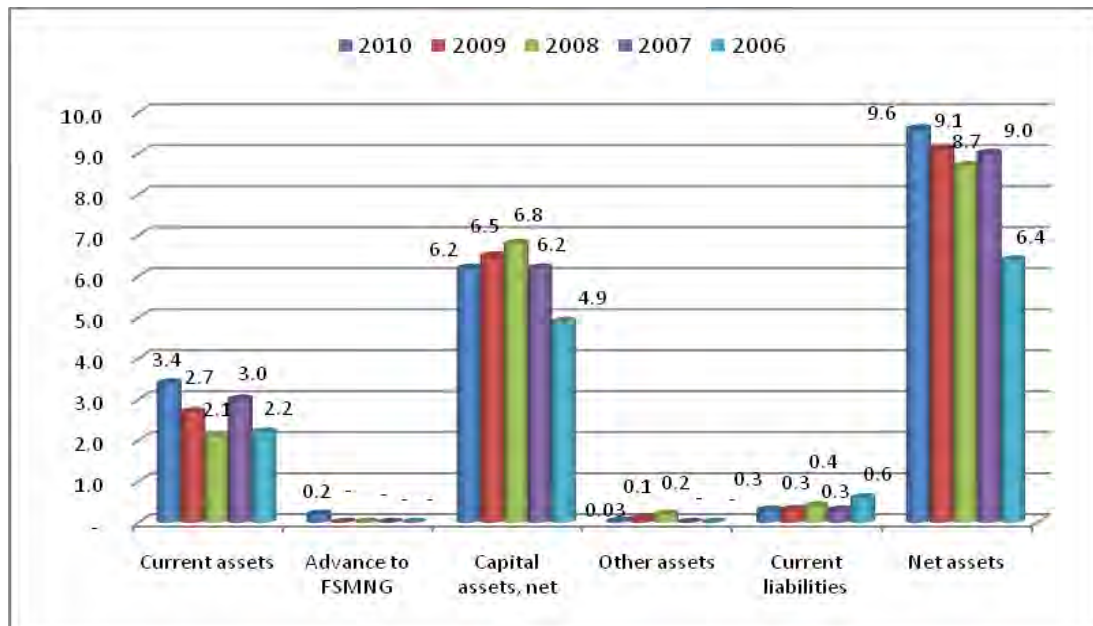
	<u>2010</u>	<u>2009</u>	<u>FY 2010 vs FY2009</u>		<u>2008</u>
			<u>Increase(decrease)</u>		
Current assets	\$ 3,426,055	\$2,745,010	\$ 681,045	25%	\$2,092,743
Advance to FSMNG	229,868	-	229,868	100%	-
Capital assets, net	6,200,595	6,514,676	(314,081)	-5%	6,796,983
Other assets	<u>28,536</u>	<u>114,144</u>	<u>(85,608)</u>	<u>-75%</u>	<u>199,752</u>
<b>Total assets</b>	<b><u>\$ 9,885,054</u></b>	<b><u>\$9,373,830</u></b>	<b><u>\$ 511,224</u></b>	<b>5%</b>	<b><u>\$9,089,478</u></b>
Current liabilities	<u>\$ 262,634</u>	<u>\$ 312,873</u>			<u>\$ 349,466</u>
<b>Total liabilities</b>	<b><u>\$ 262,634</u></b>	<b><u>\$ 312,873</u></b>	<b><u>\$ (50,239)</u></b>	<b>-16%</b>	<b><u>\$ 349,466</u></b>
Net assets					
Invested in capital assets	\$ 6,200,595	\$6,514,676			\$6,796,983
Unrestricted	<u>3,421,825</u>	<u>2,546,281</u>			<u>1,943,029</u>
<b>Total net assets</b>	<b><u>\$ 9,622,420</u></b>	<b><u>\$9,060,957</u></b>	<b><u>\$ 561,463</u></b>	<b>6%</b>	<b><u>\$8,740,012</u></b>



## POHNPEI PORT AUTHORITY

### Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

The Authority's net assets from fiscal years 2006 to 2010 are as follows:



### Changes in Net Assets

Total revenues rose 4% from last year due to 6% increases from seaport charges, rentals, departure and landing fees while operating expenses were reduced by 1% mainly due to depreciation. The loss on disposal of asset and lower interest income reduced the increase from earnings from operations of 84% to 75%.

The Authority's changes in net assets for fiscal years 2008 to 2010 are as follows:

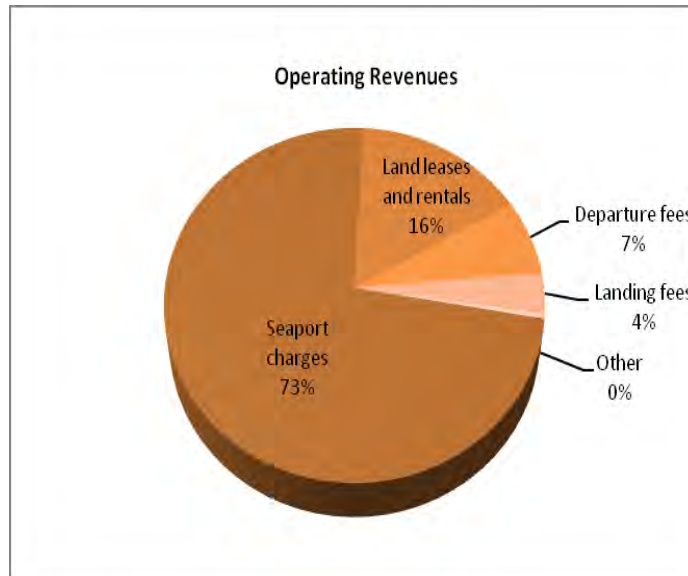
	2010	2009	FY 2010 vs FY 2009		2008
			Increase(decrease)		
Operating revenues:					
Seaport charges	\$ 2,035,970	\$1,999,945	\$ 36,025		\$ 1,512,708
Land leases and space rentals	441,843	357,781	84,062		360,599
Departure fees	196,036	176,050	19,986		179,710
Landing fees	102,613	97,639	4,974		95,729
Other	12,626	51,832	(39,206)		43,084
<b>Total operating revenues</b>	<b>2,789,088</b>	<b>2,683,247</b>	<b>105,841</b>	<b>4%</b>	<b>2,191,830</b>
Bad debt expense	(164,787)	(287,015)	122,228	-43%	(601,466)
<b>Net operating revenue</b>	<b>2,624,301</b>	<b>2,396,232</b>	<b>228,069</b>	<b>10%</b>	<b>1,590,364</b>

# POHNPEI PORT AUTHORITY

## Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

	2010	2009	FY 2010 vs FY 2009		2008
			<u>Increase(decrease)</u>		
Operating expenses:					
Salaries and benefits	1,002,945	971,586	31,359		990,821
Depreciation and amortization	469,409	561,973	(92,564)		469,988
Repairs and maintenance	83,338	60,092	23,246		210,254
Utilities	113,218	112,942	276		123,419
Travel	117,817	111,116	6,701		100,260
Legal and professional services	47,886	44,128	3,758		77,646
Supplies and materials	56,816	75,465	(18,649)		60,899
Fuel	57,087	52,820	4,267		60,810
Communication	24,407	21,092	3,315		23,465
Training	38,698	30,313	8,385		18,417
Miscellaneous and others	51,658	49,478	2,180		49,036
<b>Total operating expenses</b>	<b>2,063,281</b>	<b>2,091,005</b>	<b>(27,726)</b>	<b>-1%</b>	<b>2,185,015</b>
<b>Earnings (loss) from operations</b>	<b>561,020</b>	<b>305,227</b>	<b>255,793</b>	<b>84%</b>	<b>(594,651)</b>
Nonoperating revenues (expenses):					
Loss on disposal of asset	(13,250)	-	(13,250)		-
Interest income	13,693	15,718	(2,025)		29,814
<b>Total nonoperating revenues, net</b>	<b>443</b>	<b>15,718</b>	<b>(15,275)</b>	<b>-97%</b>	<b>29,814</b>
Capital contribution	-	-	-		348,626
<b>Change in net assets</b>	<b>\$ 561,463</b>	<b>\$ 320,945</b>	<b>\$ 240,518</b>	<b>75%</b>	<b>\$ (216,211)</b>

For the year ended September 30, 2010, the Authority's operating revenues, bad debts and operating expenses are as follows:

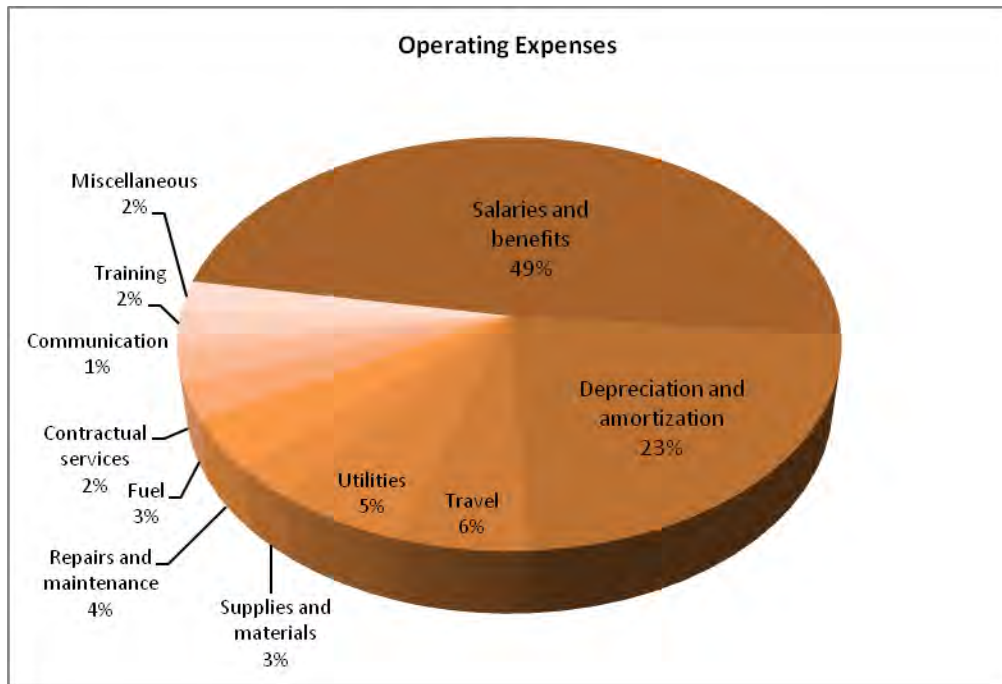
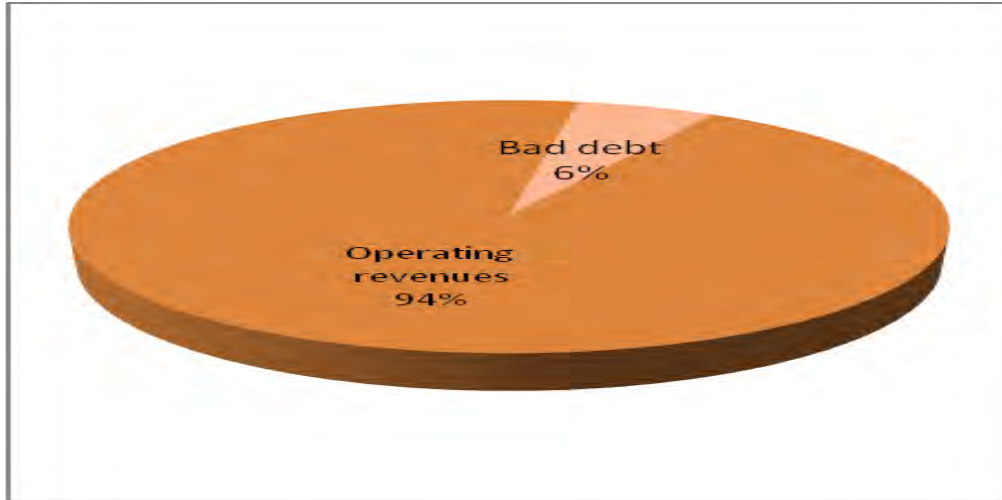




# POHNPEI PORT AUTHORITY

## Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

The Authority charged off bad debts of \$164,787, largely due from the delinquent account of a seaport agent. At the end of FY 2010, the total allowance for bad debts was 87% of receivables.



### Capital Assets

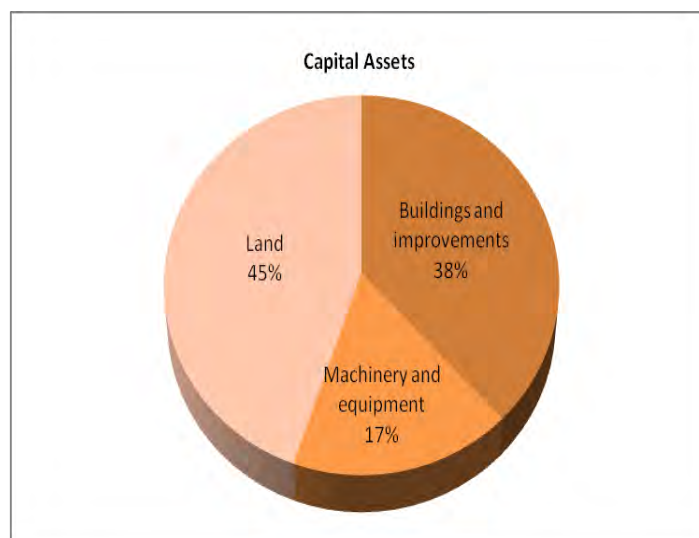
The Authority's net investment in capital assets valued at \$6,200,595 decreased by \$314,081 from last year. The decrease is attributed to higher depreciation expense and dispositions of \$397,423 compared to asset additions of \$83,341.

## POHNPEI PORT AUTHORITY

### Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

Capital assets added during the year include the fabricated pontoon, two vehicles, radios and outboard motor engine for seaport division, computers, welding machine, cameras, furniture and software. For additional information, please see note 4 to the accompanying financial statements.

	Cost	Accumulated Depreciation	Book Value
Buildings and improvements	\$ 14,848,723	\$ (12,484,373)	\$ 2,364,350
Machinery and equipment	2,322,030	(1,261,819)	1,060,211
Land	2,776,034	-	2,776,034
Total	<u>\$ 19,946,787</u>	<u>\$ (13,746,192)</u>	<u>\$ 6,200,595</u>



### Long-term Debt

The Authority did not have any long-term debt or long-term liabilities existing at September 30, 2010, 2009 and 2008.

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 18, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at [www.fsmpublicauditor.fm](http://www.fsmpublicauditor.fm).

### FY 2011 Economic Outlook

The Authority commenced to upgrade other seaport and airport infrastructures to supplement the Airport Improvement Project Grant by the United States Federal Aviation Administration and by the Japan International Cooperation Agency funded AIP that includes the new arrival terminal.

For fiscal year 2011, the Authority's capital budget of \$478,500 shall fund various seaport capital improvement projects. This is in addition to this year's ongoing CIP of \$900,000 to replace the seaport dock fenders, pavement of airport's departure parking lot, and tiling of departure terminal lobby. Further, a supplemental budget of \$224,298 was allocated for the extension of the arrival parking lot, relocation of departure terminal restrooms, pavement of airport main entrance and access roads, airport drainage, additional parking lights, and replacement of fence and gates.

## **POHNPEI PORT AUTHORITY**

Management's Discussion and Analysis  
Years Ended September 30, 2010 and 2009

With the development of the ports, management anticipates higher costs of utilities, fuel, supplies and depreciation. In order to keep up with rising costs of operations, acquire vital equipment and continue to upgrade other infrastructures (especially the dock), the Authority plans to tap into alternative energy and will request for grants from developed countries. Lastly, the proposed rate increase on airport charges such as utilization, landing, and parking fees aims to sustain airport operation that has been subsidized by seaport revenues over the years.

### **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.

**POHNPEI PORT AUTHORITY**

Statements of Net Assets  
September 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 3,148,233	\$ 2,328,412
Accounts receivable, net	243,124	412,933
Advances	5,980	3,665
Prepaid expenses	28,718	-
Total current assets	<u>3,426,055</u>	<u>2,745,010</u>
Advance Contribution- Long term	229,868	-
Replacement parts, net of accumulated amortization of \$228,288 and \$142,680 at September 30, 2010 and 2009	28,536	114,144
Property and equipment, net	<u>6,200,595</u>	<u>6,514,676</u>
	<u>\$ 9,885,054</u>	<u>\$ 9,373,830</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 107,241	\$ 144,663
Accrued liabilities and others	2,241	16,789
Due to FSM National Government	78,186	78,186
Accrued annual leave	74,966	73,235
Total current liabilities	<u>262,634</u>	<u>312,873</u>
Contingency		
Net assets:		
Invested in capital assets	6,200,595	6,514,676
Unrestricted	<u>3,421,825</u>	<u>2,546,281</u>
Total net assets	<u>9,622,420</u>	<u>9,060,957</u>
	<u>\$ 9,885,054</u>	<u>\$ 9,373,830</u>

See accompanying notes to financial statements.

**POHNPEI PORT AUTHORITY**

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

	2010	2009
Operating revenues:		
Seaport charges	\$ 2,035,970	\$ 1,999,945
Land leases and space rentals	441,843	357,781
Departure fees	196,036	176,050
Landing fees	102,613	97,639
Other	12,626	51,832
Total operating revenues	2,789,088	2,683,247
Less allowance for doubtful debts	(164,787)	(287,015)
Net operating revenues	2,624,301	2,396,232
Operating expenses:		
Salaries and benefits	1,002,945	971,586
Depreciation and amortization	469,409	561,973
Travel	117,817	111,116
Utilities	113,218	112,942
Repairs	83,338	60,092
Fuel	57,087	52,820
Supplies and materials	56,816	75,465
Contractual services	47,886	44,128
Training	38,698	30,313
Communication	24,407	21,092
Miscellaneous and others	51,658	49,478
Total operating expenses	2,063,281	2,091,005
Earnings from operations	561,020	305,227
Nonoperating revenues (expenses):		
Loss on disposal of assets	(13,250)	-
Interest income	13,693	15,718
Total nonoperating revenues (expenses), net	443	15,718
Change in net assets	561,463	320,945
Net assets at beginning of year	9,060,957	8,740,012
Net assets at end of year	\$ 9,622,420	\$ 9,060,957

See accompanying notes to financial statements.

**POHNPEI PORT AUTHORITY**

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

	2010	2009
Cash flows from operating activities:		
Cash received from customers	\$ 2,794,110	\$ 2,180,994
Cash paid to suppliers for goods and services	(671,615)	(587,991)
Cash paid to employees	(1,003,529)	(948,982)
Net cash provided by operating activities	1,118,966	644,021
Cash flows from capital and related financing activities:		
Advance contribution to FSM National Government	(229,868)	-
Acquisition of property and equipment	(82,970)	(194,058)
Net cash used in capital and related financing activities	(312,838)	(194,058)
Cash flows from investing activities:		
Interest income	13,693	15,718
Net change in cash and cash equivalents	819,821	465,681
Cash and cash equivalents at beginning of year	2,328,412	1,862,731
Cash and cash equivalents at end of year	\$ 3,148,233	\$ 2,328,412
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$ 561,020	\$ 305,227
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation and amortization	469,409	561,973
Bad debts	164,787	287,015
(Increase) decrease in assets:		
Accounts receivable	5,022	(502,252)
Advances	(2,315)	16,501
Prepaid expense	(28,718)	12,151
Increase (decrease) in liabilities:		
Accounts payable	(37,422)	(59,487)
Accrued liabilities and others	(14,548)	16,789
Accrued annual leave	1,731	6,104
Net cash provided by operating activities	\$ 1,118,966	\$ 644,021

See accompanying notes to financial statements.

## POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

### (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.

# POHNPEI 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 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, 2010 and 2009, the carrying amount of the Authority's total cash and cash equivalents was \$3,148,233 and \$2,328,412, respectively, and the corresponding bank balance was \$3,189,686 and \$2,344,547, respectively which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of \$500,000 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.



## POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

### (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.

#### Advances from FSM National Government

The FSM National Government administers various construction grants that require a matching share. The Authority has provided the match in advance which will be capitalized into capital assets upon the turnover of the final project to the Authority.

## POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

### (2) Summary of Significant Accounting Policies, Continued

#### 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.

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.

**POHNPEI PORT AUTHORITY**

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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	\$ 1,862,782	\$ 1,867,804
Less allowance for doubtful debts	(1,619,658)	(1,454,871)
	<u>\$ 243,124</u>	<u>\$ 412,933</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>
Non-depreciable:					
Land		\$ <u>2,776,034</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,776,034</u>
Depreciable:					
Buildings and improvements	7 to 70 years	14,841,468	37,255	(30,000)	14,848,723
Machinery and equipment	3 - 5 years	<u>2,304,129</u>	<u>45,715</u>	<u>(27,814)</u>	<u>2,322,030</u>
		17,145,597	82,970	(57,814)	17,170,753
Less accumulated depreciation		<u>(13,406,955)</u>	<u>(383,801)</u>	<u>44,564</u>	<u>(13,746,192)</u>
		<u>3,738,642</u>	<u>(300,831)</u>	<u>(13,250)</u>	<u>3,424,561</u>
Net investment in property and equipment		\$ <u>6,514,676</u>	\$ <u>(300,831)</u>	\$ <u>(13,250)</u>	\$ <u>6,200,595</u>
	<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>
Non-depreciable:					
Land		\$ <u>2,776,034</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,776,034</u>
Depreciable:					
Buildings and improvements	7 to 70 years	14,741,817	100,003	(352)	14,841,468
Machinery and equipment	3 - 5 years	<u>2,308,195</u>	<u>94,055</u>	<u>(98,121)</u>	<u>2,304,129</u>
		17,050,012	194,058	(98,473)	17,145,597
Less accumulated depreciation		<u>(13,029,063)</u>	<u>(476,365)</u>	<u>98,473</u>	<u>(13,406,955)</u>
		<u>4,020,949</u>	<u>(282,307)</u>	<u>-</u>	<u>3,738,642</u>
Net investment in property and equipment		\$ <u>6,796,983</u>	\$ <u>(282,307)</u>	\$ <u>-</u>	\$ <u>6,514,676</u>

# POHNPEI PORT AUTHORITY

Notes to Financial Statements  
September 30, 2010 and 2009

## (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:

<u>Year ending September 30,</u>	<u>Total</u>
2011	\$ 357,443
2012	260,397
2013	241,905
2014	241,905
2015	241,905
2016 - 2010	1,136,784
2021 - 2025	<u>355,807</u>
	\$ <u>2,836,146</u>

## (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, 2010, 2009 and 2008 were \$29,164, \$32,484 and \$34,916, 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, 2010 and 2009, plan assets were \$346,431 and \$288,557, respectively.

**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, 2010, and have issued our report thereon dated May 5, 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 material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

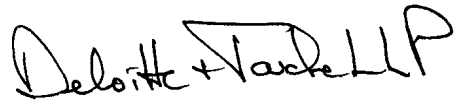
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 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 May 5, 2011.

This report is intended solely for the information and use of management, Board of Directors of the Authority, others within the entity, 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.

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

May 5, 2011

**POHNPEI 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.