

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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

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Years Ended September 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei Port Authority:

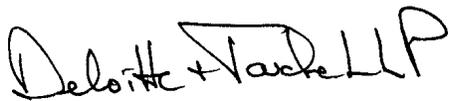
We have audited the accompanying statements of net assets of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2012, 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.

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.

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

June 25, 2012

POHNPEI PORT AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

Our discussion and analysis of the Pohnpei Port Authority's ("the Authority") financial performance provides an overview of the Authority's financial activities for fiscal year ended September 30, 2011. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- Operating revenues decreased by \$462,295 or 17% from last year.
- Operating expenses were 5% or \$114,934 higher compared to fiscal year 2010.
- Current assets increased by 2.43% largely due to increase in bank balance.
- Liabilities rose by \$41,262 or 16%.
- The earnings from operations and other income net of Contributions to Pohnpei State led to negative results of operations.
- Net assets were reduced by the loss of \$7,638.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Authority. Included in this report are the Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets. These financial statements present the complete financial picture of the Authority from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets and liabilities of the Authority and current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The accounts of the Authority are organized as a proprietary fund. Proprietary funds are used by governmental units that are operated in a manner similar to private business enterprises. The Authority prepares and submits a detailed statement of its proposed annual budget to the Governor on or before March 15th of each year. An annual budget may be amended at any time in the same manner as the adoption of the initial budget for that fiscal year. The Authority depends mainly on its generated revenues to sustain its operations. Seaport charges, departure fees, landing fees, land leases and space rentals are the major sources of revenues.

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

The Statement of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets report the financial condition or position and results of operations of the Authority. They show the assets, liabilities and the difference between assets and liabilities. They report the information whether the Authority has sufficient resources to meet its current and long-term obligations as well. They show whether the Authority's financial health is improving, deteriorating or remaining steady as prior year. They report the revenues earned and expenses incurred and whether the revenues are more or less than the expenses.

A Financial Analysis of the Authority as a Whole

Net Assets

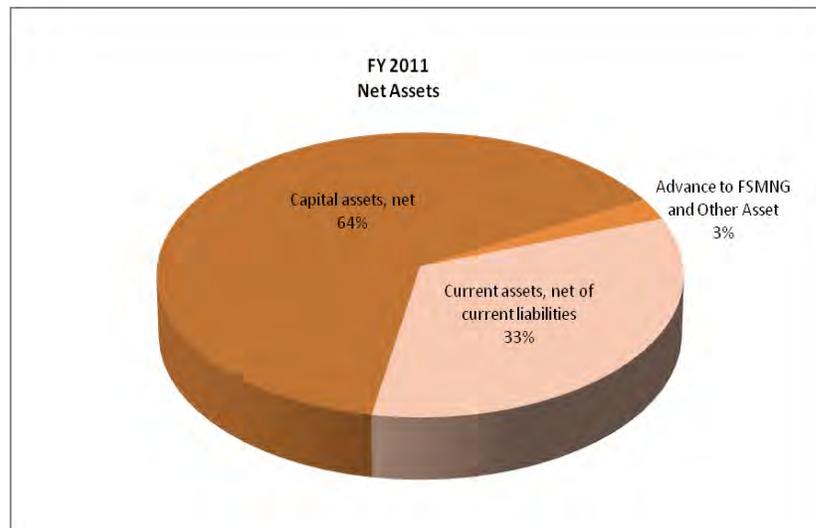
Current assets increased by \$83,296 or 2.43% mainly due to an increased bank balance. The Advance to the FSM National Government of \$229,868 represents matching funds required by the FAA Grant amendments for Pohnpei's International Airport Improvement Project. Capital assets and other assets declined by 0.5% and 66% respectively due to depreciation and amortization. On the other hand, liabilities increased by \$41,262. Overall, net assets decreased by \$7,638.

POHNPEI PORT AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

The following summarizes the Authority's financial condition for fiscal years 2009 to 2011:

	<u>2011</u>	<u>2010</u>	<u>FY 11 vs FY 10</u> <u>Increase(decrease)</u>		<u>2009</u>
Current assets	\$ 3,509,351	\$ 3,426,055	\$ 83,296	2.43%	\$ 2,745,010
Advance to FSMNG	229,868	229,868	-	-	-
Capital assets, net	6,169,659	6,200,595	(30,936)	-0.50%	6,514,676
Other assets	<u>9,800</u>	<u>28,536</u>	<u>(18,736)</u>	<u>-65.66%</u>	<u>114,144</u>
Total assets	<u>9,918,678</u>	<u>9,885,054</u>	<u>33,624</u>	<u>0.34%</u>	<u>9,373,830</u>
Current liabilities	<u>303,896</u>	<u>262,634</u>			<u>312,873</u>
Total liabilities	<u>303,896</u>	<u>262,634</u>	41,262	15.71%	<u>312,873</u>
Net assets:					
Invested in capital assets	6,169,659	6,200,595			6,514,676
Unrestricted	<u>3,445,123</u>	<u>3,421,825</u>			<u>2,546,281</u>
Total net assets	\$ <u>9,614,782</u>	\$ <u>9,622,420</u>	(7,638)	-0.08%	\$ <u>9,060,957</u>

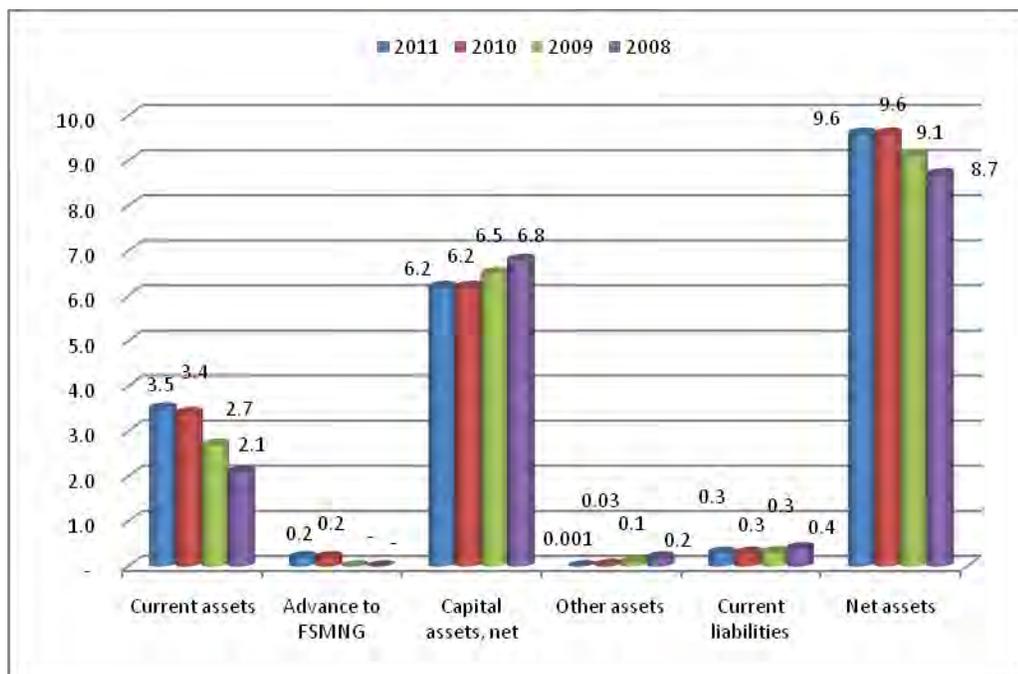


POHNPEI PORT AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

The Authority's net assets from fiscal years 2008 to 2011 are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$3,509,351	\$3,426,055	\$2,745,010	\$2,092,552
Capital assets, net	6,169,659	6,200,595	6,514,676	6,796,983
Other assets	239,668	258,404	114,144	199,752
Current liabilities	<u>(303,896)</u>	<u>(262,634)</u>	<u>(312,873)</u>	<u>(349,275)</u>
Net assets	<u>\$9,614,782</u>	<u>\$9,622,420</u>	<u>\$9,060,957</u>	<u>\$8,740,012</u>



Changes in Net Assets

Seaport revenues plunged 21% compared to fiscal year 2010. The decrease is attributed to less fish catch due to global warming and the tsunami arising from the Japan earthquake. Overall revenues dropped 17% while operating expenses went up by 7% from last year. The Contribution to Pohnpei State diminished the meager earnings and interest income resulting in a loss of \$7,638.

POHNPEI PORT AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

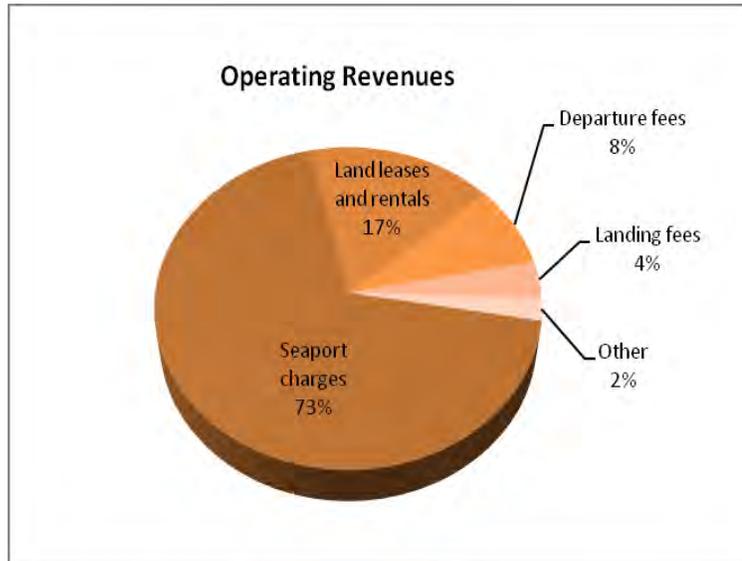
The Authority's changes in net assets for fiscal years 2009 to 2011 are as follows:

	2011	2010	FY 2011 vs FY 2010 Increase(decrease)	2009
Operating revenues:				
Seaport charges	\$1,600,057	\$2,035,970	\$(435,913)	\$1,999,945
Land leases and space rentals	414,476	441,843	(27,367)	357,781
Departure fees	191,610	196,036	(4,426)	176,050
Landing fees	87,577	102,613	(15,036)	97,639
Other	<u>33,073</u>	<u>12,626</u>	<u>20,447</u>	<u>51,832</u>
Total operating revenues	2,326,793	2,789,088	(462,295) -17%	2,683,247
Bad debt expense, net of recoveries	<u>66,942</u>	<u>164,787</u>	<u>(97,845)</u> -59%	<u>287,015</u>
Net operating revenue	<u>2,259,851</u>	<u>2,624,301</u>	<u>(364,450)</u> -	<u>2,396,232</u>
Operating expenses:				
Salaries and benefits	1,100,753	1,002,945	97,808	971,586
Depreciation and amortization	405,908	469,409	(63,501)	561,973
Repairs and maintenance	74,456	83,338	(8,882)	60,092
Utilities	174,135	113,218	60,917	112,942
Travel	92,343	117,817	(25,474)	111,116
Legal and professional services	52,862	47,886	4,976	44,128
Supplies and materials	108,295	56,816	51,479	75,465
Fuel	77,244	57,087	20,157	52,820
Communication	22,787	24,407	(1,620)	21,092
Training	33,503	38,698	(5,195)	30,313
Contribution to Pohnpei State Govt	71,438	-	71,438	-
Miscellaneous and others	<u>62,336</u>	<u>51,660</u>	<u>10,676</u>	<u>49,478</u>
Total operating expenses	<u>2,276,060</u>	<u>2,063,281</u>	<u>212,779</u> 7%	<u>2,091,005</u>
Earnings (loss) from operations	<u>(16,209)</u>	<u>561,020</u>	<u>(577,231)</u> -	<u>305,227</u>
Nonoperating revenues (expenses):				
Loss on disposal of asset	-	(13,250)	-	-
Interest income	<u>8,571</u>	<u>13,693</u>	<u>15,718</u>	<u>15,718</u>
Total nonoperating revenues, net	<u>8,571</u>	<u>443</u>	<u>8,128</u> 1835%	<u>15,718</u>
Change in net assets	<u>\$ (7,638)</u>	<u>\$ 561,463</u>	<u>\$(569,103)</u> -101%	<u>\$ 320,945</u>

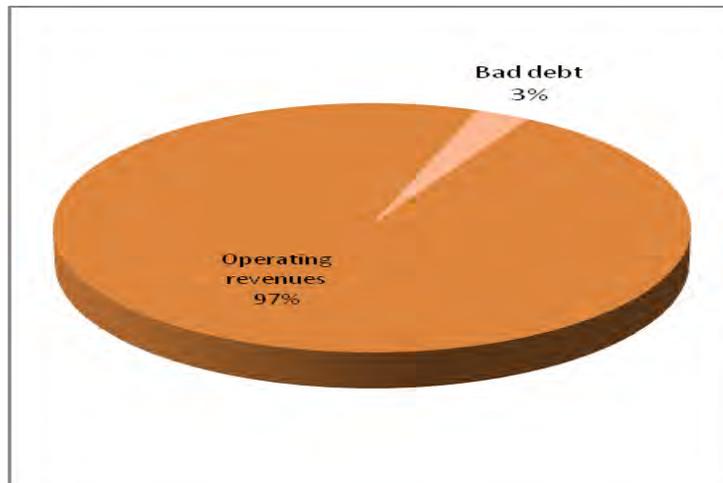
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Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

For the year ended September 30, 2011, the Authority's operating revenues, bad debt and operating expenses are as follows:

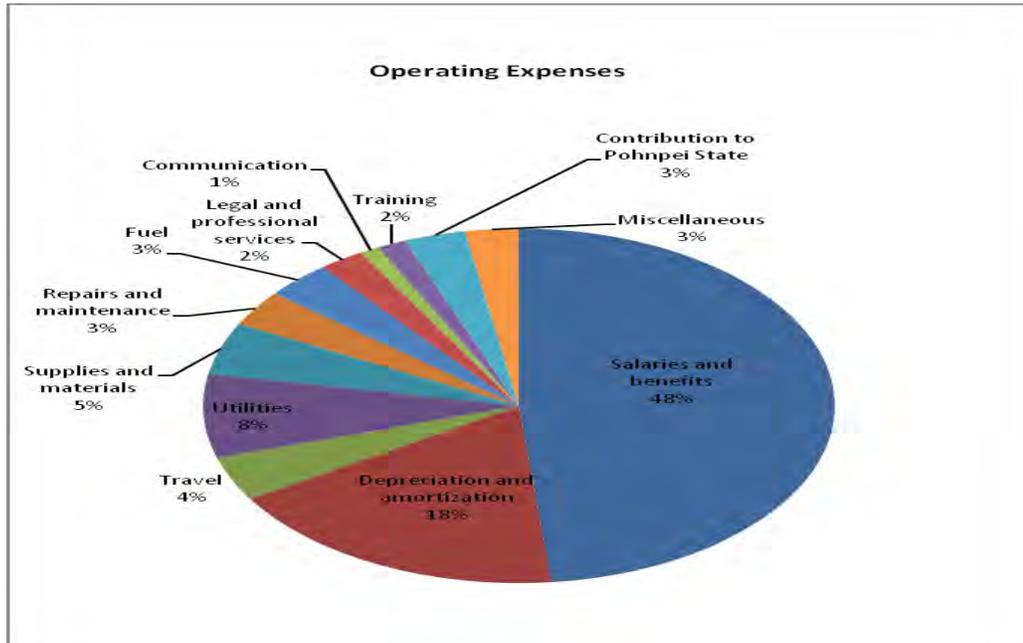


The Authority charged off bad debts of \$66,942, largely due to the delinquent account of a seaport agent. At the end of FY 2011, the total allowance for bad debts was 90% of receivables.



POHNPEI PORT AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2011 and 2010



Capital Assets

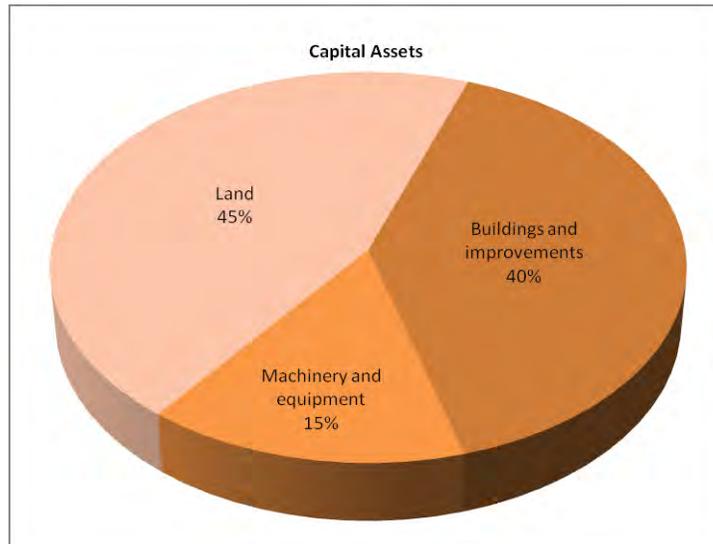
Capital assets slightly decreased by \$30,936 due to higher depreciation and dispositions of \$377,373 while asset additions and work in progress amounted to \$364,547. Net investment in capital assets totaled \$6,169,659.

Capital asset additions and work in progress include the Airport terminal lobby tiling, restroom relocation, nine car rental stalls, pavement of Airport parking lot, replacement of dock fenders, outboard motor engines, boat trailers, pad mount transformer, Administration building generator, Airport couches, security radio, underwater camera, computers, scanners, and vehicles. For additional information, please see note 4 to the accompanying financial statements.

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Buildings and improvements	\$15,077,782	\$(12,611,421)	\$2,466,361
Machinery and equipment	2,421,920	(1,494,656)	927,264
Land	<u>2,776,034</u>	-	<u>2,776,034</u>
Total	<u>\$20,275,736</u>	<u>\$(14,106,077)</u>	<u>\$6,169,659</u>

POHNPEI PORT AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2011 and 2010



Long-Term Debt

The Authority did not have any long-term debt or long-term liabilities existing at September 30, 2011, 2010, 2009 and 2008.

Management's Discussion and Analysis for the year ended September 30, 2010 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 2010 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at www.fsmopa.fm.

FY 2013 Economic Outlook

The completion of the new Airport Arrival Terminal and Aircraft Rescue and Fire Fighters (ARFF) Building had started to impact PPA's utilities and fuel consumption aside from added custodial workers, security, supplies and maintenance of the facilities.

Depreciation is anticipated to increase upon completion of last year's Capital Improvement Projects and additions. However, recovery of said investments is yet to be realized pending approval of proposed Airport tariffs and implementation of approved Seaport tariffs.

Additionally, ongoing issues include litigation settlement, financial assistance to another Component Unit as well as feasibility of ADB infrastructure loan for seaport.

With the soaring cost of operation and fewer fishing vessels calling on the port, PPA is challenged to use its limited resources prudently in order to secure vital equipment, upgrade infrastructure, subsidize the Airport operation and maintain positive trends in results of operation.

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, 2011 and 2010

	<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:			
Cash and cash equivalents		\$ 3,278,093	\$ 3,148,233
Accounts receivable, net		219,030	243,124
Advances		8,517	5,980
Prepaid expenses		<u>3,711</u>	<u>28,718</u>
Total current assets		3,509,351	3,426,055
Advance to FSM National Government		229,868	229,868
Replacement parts, net		9,800	28,536
Property and equipment, net		<u>6,169,659</u>	<u>6,200,595</u>
		<u>\$ 9,918,678</u>	<u>\$ 9,885,054</u>
 <u>LIABILITIES AND NET ASSETS</u> 			
Current liabilities:			
Accounts payable		\$ 147,018	\$ 107,241
Accrued liabilities and others		2,249	2,241
Due to FSM National Government		78,186	78,186
Accrued annual leave		<u>76,443</u>	<u>74,966</u>
Total current liabilities		<u>303,896</u>	<u>262,634</u>
Commitments and contingency			
Net assets:			
Invested in capital assets		6,169,659	6,200,595
Unrestricted		<u>3,445,123</u>	<u>3,421,825</u>
Total net assets		<u>9,614,782</u>	<u>9,622,420</u>
		<u>\$ 9,918,678</u>	<u>\$ 9,885,054</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Seaport charges	\$ 1,600,057	\$ 2,035,970
Land leases and space rentals	414,476	441,843
Departure fees	191,610	196,036
Landing fees	87,577	102,613
Other	33,073	12,626
Total operating revenues	<u>2,326,793</u>	<u>2,789,088</u>
Less allowance for doubtful debts	<u>(66,942)</u>	<u>(164,787)</u>
Net operating revenues	<u>2,259,851</u>	<u>2,624,301</u>
Operating expenses:		
Salaries and benefits	1,100,753	1,002,945
Depreciation and amortization	405,908	469,409
Utilities	174,135	113,218
Supplies and materials	108,295	56,816
Travel	92,343	117,817
Fuel	77,244	57,087
Repairs	74,456	83,338
Contractual services	52,862	47,886
Training	33,503	38,698
Communication	22,787	24,407
Miscellaneous and others	133,774	51,660
Total operating expenses	<u>2,276,060</u>	<u>2,063,281</u>
(Loss) earnings from operations	<u>(16,209)</u>	<u>561,020</u>
Nonoperating revenues (expenses):		
Loss on disposal of assets	-	(13,250)
Interest income	8,571	13,693
Total nonoperating revenues (expenses), net	<u>8,571</u>	<u>443</u>
Change in net assets	(7,638)	561,463
Net assets at beginning of year	<u>9,622,420</u>	<u>9,060,957</u>
Net assets at end of year	<u>\$ 9,614,782</u>	<u>\$ 9,622,420</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Statements of Cash Flows Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	\$ 2,283,945	\$ 2,794,110
Cash paid to suppliers for goods and services	(704,609)	(671,615)
Cash paid to employees	(1,101,811)	(1,003,529)
Net cash provided by operating activities	477,525	1,118,966
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(346,436)	(82,970)
Acquisition of replacement parts	(9,800)	-
Advance contribution to FSM National Government	-	(229,868)
Net cash used in capital and related financing activities	(356,236)	(312,838)
Cash flows from investing activities:		
Interest income	8,571	13,693
Net change in cash and cash equivalents	129,860	819,821
Cash and cash equivalents at beginning of year	3,148,233	2,328,412
Cash and cash equivalents at end of year	\$ 3,278,093	\$ 3,148,233
Reconciliation of (loss) earnings from operations to net cash provided by operating activities:		
(Loss) earnings from operations	\$ (16,209)	\$ 561,020
Adjustments to reconcile (loss) earnings from operations to net cash provided by operating activities:		
Depreciation	377,372	383,801
Amortization	28,536	85,608
Bad debts	66,942	164,787
(Increase) decrease in assets:		
Accounts receivable	(42,848)	5,022
Advances	(2,537)	(2,315)
Prepaid expense	25,007	(28,718)
Increase (decrease) in liabilities:		
Accounts payable	39,777	(37,422)
Accrued liabilities and others	8	(14,548)
Accrued annual leave	1,477	1,731
Net cash provided by operating activities	\$ 477,525	\$ 1,118,966

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010

(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

For purposes of the statements of net assets and the statements of cash flows, cash and cash equivalents is defined as cash on hand, cash in banks and cash in time certificates of deposit with initial maturities of ninety days or less.

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, 2011 and 2010, the carrying amount of the Authority's total cash and cash equivalents was \$3,278,093 and \$3,148,233, respectively, and the corresponding bank balances were \$3,298,538 and \$3,189,686, respectively, which are primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, 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, 2011 and 2010

(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 to 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.

New Accounting Standards

During fiscal year 2011, the Authority implemented the following pronouncements:

- GASB 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.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

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 December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 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 December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

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Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 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 July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective 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.

(3) Accounts Receivable

The detail of accounts receivable, net of allowance for doubtful debts, at September 30, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
Accounts receivable	\$ 1,905,630	\$ 1,862,782
Less allowance for doubtful debts	(1,686,600)	(1,619,658)
	<u>\$ 219,030</u>	<u>\$ 243,124</u>

(4) Property and Equipment

Capital asset activity for the years ended September 30, 2011 and 2010, was as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2010</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2011</u>
Non-depreciable:					
Land		\$ 2,776,034	\$ -	\$ -	\$ 2,776,034
Construction in progress		-	<u>229,059</u>	-	<u>229,059</u>
		<u>2,776,034</u>	<u>229,059</u>	-	<u>3,005,093</u>
Depreciable:					
Buildings and improvements	7 to 70 years	14,848,723	-	-	14,848,723
Machinery and equipment	3 - 5 years	<u>2,322,030</u>	<u>117,377</u>	(17,487)	<u>2,421,920</u>
		17,170,753	117,377	(17,487)	17,270,643
Less accumulated depreciation		(13,746,192)	(377,372)	<u>17,487</u>	(14,106,077)
		<u>3,424,561</u>	(259,995)	-	<u>3,164,566</u>
Net investment in property and equipment		<u>\$ 6,200,595</u>	<u>\$ (30,936)</u>	<u>\$ -</u>	<u>\$ 6,169,659</u>

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Notes to Financial Statements
September 30, 2011 and 2010

(4) Property and Equipment, Continued

	<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		\$ 2,776,034	\$ _____	\$ _____	\$ 2,776,034
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>

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>
2012	\$ 350,035
2013	333,722
2014	333,722
2015	333,722
2016	333,722
2017 - 2021	936,811
2022 - 2025	<u>91,149</u>
	\$ <u>2,712,883</u>

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Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011, 2010 and 2009 were \$33,598, \$29,164 and \$32,484, 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, 2011 and 2010, plan assets were \$392,062 and \$348,809, 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, 2011, and have issued our report thereon dated June 25, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective 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.

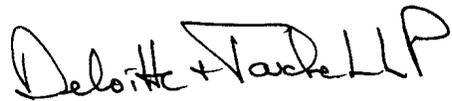
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 June 25, 2012.

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 + Touche LLP". The signature is written in a cursive, stylized font.

June 25, 2012

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Summary Schedule of Prior Year Findings
Years Ended September 30, 2011 and 2010

There are no prior year findings unresolved as of September 30, 2011.