POHNPEI PORT AUTHORITY

(A COMPONENT UNIT OF THE STATE OF POHNPEI)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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

Table of Contents
Years Ended September 30, 2013 and 2012

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei Port Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pohnpei Port Authority as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014 on our consideration of the Pohnpei Port 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pohnpei Port Authority's internal control over financial reporting and compliance.

Deloitte + Touche LLP

June 26, 2014

POHNPEI PORT AUTHORITY
(A Component Unit of the State of Pohnpei)

Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

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, 2013. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- Operating revenues increased by $1,168,674 or 47.2% from last year.
- Operating expenses were $407,919 or 18.2% higher compared to fiscal year 2012.
- Current assets decreased by $478,974 or 13.1%.
- Liabilities decreased by $23,664 or 8.7%.
- Net position increased by $1,333,893 or 13.5%.

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 Position and the Statements of Revenues, Expenses, and Changes in Net Position. 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.

<u>The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position</u>

The Statement of Net Position and Statements of Revenues, Expenses and Changes in Net Position 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 from 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

<u>Net Position</u>

Current assets decreased by $478,974 or 13.1% mainly due to an increased bank balance. Capital assets and investment increased by 3.2% and 100% respectively due to investment as well as depreciation and amortization. On the other hand, liabilities decreased by $23,664. Overall, net position increased by $1,333,893.

The following summarizes the Authority's financial condition for fiscal years 2011 to 2013:

	2013	2012	FY 13 vs FY 12 Increase(decrease)		2011
Current assets	$ 3,177,094	$ 3,656,068	$ (478,974)	(13.1)%	$ 3,509,351
Advance to FSMNG	229,868	229,868	-	-	229,868
Capital assets, net	6,428,897	6,224,253	204,644	3.2%	6,169,659
Investments	1,584,559	-	1,584,559	100%	-
Other assets	9,754	9,754	-		9,800
Total assets	11,430,172	10,119,943	1,310,229	12.9%	9,918,678
Current liabilities	247,058	270,722	(23,664)		303,893
Total liabilities	247,058	270,722	(23,664)	-8.7%	303,893
Net position:					
Investment in capital assets	6,428,897	6,224,253	204,644		6,169,659
Unrestricted	4,754,217	3,624,968	1,129,249		3,445,123
Total net position	$ 11,183,114	$ 9,849,221	1,333,893	13.54%	$ 9,614,782

The Authority's net position from fiscal years 2010 to 2013 is as follows:

	2013	2012	2011	2010
Current assets	$ 3,177,094	$ 3,656,068	$ 3,509,351	$ 3,426,055
Capital assets, net	6,428,897	6,224,253	6,169,659	6,200,595
Other assets	239,622	239,622	239,668	258,404
Investments	1,584,559	-	-	-
Current liabilities	(247,058)	(270,722)	(303,896)	(262,634)
Net position	$ 11,183,114	$ 9,849,221	$ 9,614,782	$ 9,622,420

Changes in Net Position

Seaport revenues increased by 55.3% compared to fiscal year 2012. Overall revenues increased by 47.2% while operating expenses went up by 18.2% from last year. Even with the increase of expenses by 18.2% it did not have great impact as revenues increased 47.2% including interest income resulting in net income of $1,333,893.

The Authority's changes in net position for fiscal years 2011 to 2013 are as follows:

	2013	2012	FY 2013 vs FY 2012 Increase(decrease)		2011
Operating revenues:					
Seaport charges	$ 2,723,700	$ 1,753,423	$ 970,277		$ 1,600,057
Land leases and space rentals	456,583	417,741	38,842		441,476
Departure fees	224,300	183,440	40,860		191,610
Landing fees	91,100	86,750	4,350		87,577
Other	144,609	30,264	114,345		33,073
Total operating revenues	3,640,292	2,471,618	1,168,674	47.2%	2,326,793
Bad debt expense, net of recoveries	160,150	(8,729)	168,879	1.935%	(66,942)
Net operating revenue	3,800,442	2,462,889	1,337,553		2,259,851
Operating expenses:					
Salaries and benefits	1,069,523	1,049,807	19,716		1,100,753
Depreciation and amortization	423,975	428,183	4,208		405,908
Repairs and maintenance	71,353	55,228	16,125		74,456
Utilities	291,487	244,891	46,596		174,135
Travel	101,381	117,950	(16,569)		92,343
Supplies and materials	88,829	48,003	40,826		108,295
Fuel	105,767	93,680	12,087		77,244
Communication	27,108	35,460	(8,352)		22,787
Training	56,533	56,453	80		33,503
Contractual services	134,506	24,054	110,452		52,862
Miscellaneous and others	271,498	80,332	191,166		133,774
Total operating expenses	2,641,960	2,234,041	407,919	18.2%	2,276,060
Earnings (loss) from operations	1,158,482	228,848	929,634		(16,209)
Non-operating revenues (expenses):					
Operating grants	119,000	-	119,000		-
Interest income	3,230	5,591	(2,361)		8,571
Contributed capital – capital grants	53,181	-	53,181		-
Total non-operating revenues, net	175,411	5,591	169,820	3037%	8,571
Change in net position	$1,333,893	$ 234,439	$ 1,099,454	469%	$ (7,638)

Capital Assets

Capital asset additions of $628,619 and $482,777 occurred during the years ended September 30, 2013 and 2012 as the Authority continues to make investments in upgrading the airport facility. For additional information concerning capital assets, refer to note 4 to the financial statements.

Long-Term Debt

The Authority did not have any long-term debt or long-term liabilities existing at September 30, 2013, 2012, 2011.

The Management Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Authority's operations. This financial report is designed to provide a general overview of the Authority's finances and to demonstrate PPA's accountability for the funds it receives and expends.

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in PPA's report on the audit of financial statements which is dated June 26, 2013. That Discussion and Analysis explains in more detail major factors impacting the 2012 financial statements. A copy of that report can be obtained by contacting the address noted below.

FY 2014 Economic Outlook

PPA will continue to see increase in cost utilities and fuel with the completion of the new Airport Arrival Terminal and Aircraft Rescue and Fire Fighters (ARFF) Building 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. In the event that this ADB loan is approved, PPA is challenged to create a reserve to begin saving for the repayment of the said loan which becomes in effect in five (5) years after the loan is approved.

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
(A Component Unit of the State of Pohnpei)

Statements of Net Position
September 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash and cash equivalents	$ 2,271,807	$ 3,405,937
Accounts receivable, net	787,917	207,706
Advances	73,024	38,214
Prepaid expenses	44,346	4,211
Total current assets	3,177,094	3,656,068
Noncurrent assets:		
Investments	1,584,559	-
Advance to FSM National Government	229,868	229,868
Replacement parts, net	9,754	9,754
Property and equipment, depreciable, net	3,273,583	3,219,110
Non-depreciable property and equipment	3,155,314	3,005,093
Total noncurrent assets	8,253,078	6,463,825
	$ 11,430,172	$ 10,119,893
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 38,634	$ 71,001
Accrued liabilities and others	53,155	44,452
Due to FSM National Government	78,186	78,186
Accrued annual leave	77,083	77,083
Total current liabilities	247,058	270,722
Commitments and contingency		
Net position:		
Net investment in capital assets	6,428,897	6,224,253
Unrestricted	4,754,217	3,624,918
Total net position	11,183,114	9,849,221
	$ 11,430,172	$ 10,119,943

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY
(A Component Unit of the State of Pohnpei)

Statements of Revenue, Expenses, and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Seaport charges	$ 2,723,700	$ 1,753,423
Land leases and space rentals	456,583	417,741
Departure fees	224,300	183,440
Landing fees	91,100	86,750
Other	43,174	30,264
Total operating revenues	3,538,857	2,471,618
Recovery of/(provision for) doubtful debts	160,150	(8,729)
Net operating revenues	3,699,007	2,462,889
Operating expenses:		
Salaries and benefits	1,069,523	1,049,807
Depreciation and amortization	423,975	428,183
Utilities	291,487	244,891
Contractual services	134,506	24,054
Fuel	105,767	93,680
Travel	101,381	117,950
Supplies and materials	88,829	48,003
Repairs	71,353	55,228
Training	56,533	56,453
Communication	27,108	35,460
Miscellaneous and others	271,498	80,332
Total operating expenses	2,641,960	2,234,041
Earnings from operations	1,057,047	228,848
Nonoperating revenues:		
Operating grants	119,000	-
Net investment income	104,665	5,591
Total nonoperating revenues	223,665	5,591
Earnings before contributed capital	1,280,712	234,439
Contributed capital - capital grants	53,181	-
Change in net position	1,333,893	234,439
Net position at beginning of year	9,849,221	9,614,782
Net position at end of year	$ 11,183,114	$ 9,849,221

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY
(A Component Unit of the State of Pohnpei)

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 3,118,796	$ 2,474,213
Cash paid to suppliers for goods and services	(1,247,071)	(820,016)
Cash paid to employees	(1,069,523)	(1,049,167)
Net cash provided by operating activities	802,202	605,030
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(628,619)	(482,777)
Advance contribution from the FSM National Government	53,181	-
Net cash used in capital and related financing activities	(575,438)	(482,777)
Cash flows from investing activities:		
Increase in investments	(1,584,559)	-
Net investment income	104,665	5,591
Net cash (used in) provided by investment activities	(1,479,894)	5,591
Cash flows from noncapital and related financing activities:		
Operating grants	119,000	-
Net change in cash and cash equivalents	(1,134,130)	127,844
Cash and cash equivalents at beginning of year	3,405,937	3,278,093
Cash and cash equivalents at end of year	$ 2,271,807	$ 3,405,937
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	$ 1,057,047	$ 228,848
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	423,975	428,183
(Recoveries) bad debts	(160,150)	8,729
(Increase) decrease in assets:		
Accounts receivable	(420,061)	2,595
Advances	(34,810)	(29,697)
Prepaid expense	(40,135)	(500)
Replacement parts	-	46
Increase (decrease) in liabilities:		
Accounts payable	(32,367)	(76,017)
Accrued liabilities and others	8,703	42,203
Accrued annual leave	-	640
Net cash provided by operating activities	$ 802,202	$ 605,030

See accompanying notes to financial statements.

(1) Reporting Entity

The Pohnpei Port Authority (the Authority), a component unit of the Pohnpei State Government, was established by Pohnpei State Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. The Authority began operating as a separate entity in fiscal year 1993, although the accounting for the Authority was not transferred from the Pohnpei State Department of Treasury until January 1994.

The affairs of the Authority are managed by a seven-member board, consisting of representatives of the Pohnpei State Government appointed by the Governor to four-year terms. Daily operation of the Authority is delegated to a General Manager, who is appointed by and serves at the pleasure of the Board.

The Authority's financial statements are incorporated into the financial statements of the Pohnpei State Government as a component unit.

(2) Summary of Significant Accounting Policies

Net Position

Net position represent the residual interest in the Authority's assets and deferred out flows of resources after liabilities and deferred in flows of resources are deducted and consists of the following sections:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets, less related debt.
- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position 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.

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 position. Proprietary fund operating statements present increases and decreases in net position. 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.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

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 position 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, 2013 and 2012, the carrying amount of the Authority's total cash and cash equivalents was $2,271,807 and $3,405,937, respectively, and the corresponding bank balances were $2,367,791 and $3,448,704, respectively, which are primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, 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.

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. Bad debts are ultimately written-off against the allowance on the specific identification method.

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.

(2) Summary of Significant Accounting Policies, Continued

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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 assets have an estimated useful life of three 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 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 2013, the Authority implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement *No.* 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

(3) Investments

A schedule of investments at fair value, as of September 30, 2013 is as follows:

Fixed income securities:	
Domestic fixed income	$ 572,052
Other:	
Cash and cash equivalents	15,404
Domestic equivalents	656,679
International equities	340,424
	1,012,507
	$ 1,584,559

The Authority’s investments are not governed by a formal policy but are governed by management and the Board of Directors. Investment managers have discretion to purchase, sell, or hold specific security to meet understood objectives.

(3) Investments, Continued

Investments for fixed income securities are as follows:

		Fair Value
U.S. Treasury obligations	AAA/AAA	$ 217,285
Mortgage and asset-backed securities	AAA/AA+	130,578
Corporate Notes and Bonds	A1/AA+	18,104
Corporate Notes and Bonds	A2/A+	17,740
Corporate Notes and Bonds	A2/A	33,968
Corporate Notes and Bonds	A3/A-	51,789
Corporate Notes and Bonds	BAA1/BBB+	17,093
Corporate Notes and Bonds	BAA1/BBB-	17,494
Corporate Notes and Bonds	BAA2/BBB+	16,777
Corporate Notes and Bonds	BAA2/BBB+	17,779
Corporate Notes and Bonds	BAA3/BBB	16,606
Corporate Notes and Bonds	BAA3/BBB	16,839
		$ 572,052

As of September 30, 2013, the Authority's fixed income securities had the following maturities:

Investment Type	1 to 5 Years	5 to 10 Years	Fair Value
U.S. Treasury obligations	$ 82,312	$ 134,973	$ 217,285
Mortgage and asset-backed securities	130,578	-	130,548
Corporate Notes and Bonds	87,255	136,964	224,219
	$ 300,115	$ 271,937	$ 572,052

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in KUA's name by the Authority's custodial financial institutions at September 30, 2013.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Authority. As of September 30, 2013, there was no concentration of credit risk for the Authority's investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(4) Accounts Receivable

The detail of accounts receivable, net of an allowance for doubtful debts, at September 30, 2013 and 2012, is as follows:

	2013	2012
Accounts receivable	$ 2,323,097	$ 1,903,036
Less allowance for doubtful debts	(1,535,180)	(1,695,330)
	$ 787,917	$ 207,706

(5) Property and Equipment

Capital asset activity for the years ended September 30, 2013 and 2012, was as follows:

	Estimated Useful Lives	Balance at October 1, 2012	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2013
Non-depreciable:					
Land		$ 2,776,034	$ -	$ -	$ 2,776,034
Construction in progress		229,059	150,221	-	379,280
		3,005,093	150,221	-	3,155,314
Depreciable:					
Buildings and improvements	7 - 70 years	15,290,896	250,363		15,541,259
Machinery and equipment	3 - 5 years	2,462,524	228,035	-	2,690,559
		17,753,420	478,398		18,231,818
Less accumulated depreciation		(14,534,260)	(423,975)	-	(14,958,235)
		3,219,160	54,423	-	3,273,583
Net investment in property and equipment		$ 6,224,253	$ 204,644	$ -	$ 6,428,897

	Estimated Useful Lives	Balance at October 1, 2011	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2012
Non-depreciable:					
Land		$ 2,776,034	$ -	$ -	$ 2,776,034
Construction in progress		229,059	-	-	229,059
		3,005,093	-	-	3,005,093
Depreciable:					
Buildings and improvements	7 - 70 years	14,848,723	442,173		15,290,896
Machinery and equipment	3 - 5 years	2,421,920	40,604	-	2,462,524
		17,270,643	482,777		17,753,420
Less accumulated depreciation		(14,106,077)	(428,183)	-	(14,534,260)
		3,164,566	54,594	-	3,219,160
Net investment in property and equipment		$ 6,169,659	$ 54,594	$ -	$ 6,224,253

During the year ended September 30, 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.

Construction Commitments

As of September 30, 2013, the Authority had on-going construction commitments of $361,248.

(6) 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.

(7) 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.

(8) Future Rental Revenues

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

Year ending September 30,	Total
2014	$ 324,666
2015	305,373
2016	286,365
2017	241,958
2018	233,558
2019 - 2023	556,173
	$ 1,948,093

(9) 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, 2013, 2012 and 2011 were $33,495, $32,366, and $33,507, 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, 2013 and 2012, plan assets were $514,050 and $493,690, respectively.

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

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, in accordance with the 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, the financial statements of the Authority, which comprise the statements of net position as September 30, 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated June 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

June 26, 2014

POHNPEI PORT AUTHORITY

Summary Schedule of Prior Year Findings
Year Ended September 30, 2013

There are no prior year findings unresolved as of September 30, 2013.