

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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

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Years Ended September 30, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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.

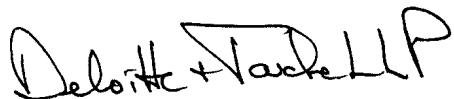
Other Matters

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 25, 2015, 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 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 Authority's internal control over financial reporting and compliance.

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

June 25, 2015

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

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, 2014. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- Operating revenues decreased by \$163,507 or 4.4% from last year.
- Operating expenses were \$862,773 or 32.7% higher compared to fiscal year 2013.
- Current assets decreased by \$105,948 or 3.3%.
- Liabilities decreased by \$13,873 or 5.6%.
- Net assets were decreased by \$1,224,494 or 91.79%.

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.

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

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. These show the assets, liabilities and the difference between assets and liabilities. These report the information whether the Authority has sufficient resources to meet its current and long-term obligations as well. These show whether the Authority's financial health is improving, deteriorating or remaining steady as prior year. These 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 Position

Current assets increased by \$24,232 or 0.8%. Capital assets and investment increased by 1.5% and 7.4% respectively due to investment as well as depreciation and amortization. On the other hand, liabilities decreased by \$13,873. Overall, net position increased by \$251,796 or 2.3%.

POHNPEI PORT AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

The following summarizes the Authority's financial condition for fiscal years 2012 to 2014:

	<u>2014</u>	<u>2013</u>	<u>FY 14 vs FY 13</u>		<u>2012</u>
			<u>Increase(decrease)</u>		
Current assets	\$ 3,201,326	\$ 3,177,094	\$ 24,232	0.8%	\$ 3,656,068
Advance to FSMNG	229,868	229,868	-	0.0%	229,868
Capital assets, net	6,523,985	6,428,897	95,088	1.5%	6,224,253
Investments	1,703,162	1,584,559	118,603	7.4%	-
Other assets	<u>9,754</u>	<u>9,754</u>	<u>-</u>	<u>-%</u>	<u>9,754</u>
Total assets	<u>11,668,095</u>	<u>11,430,172</u>	<u>237,923</u>	<u>2.1%</u>	<u>10,119,943</u>
Current liabilities	<u>233,185</u>	<u>247,058</u>	<u>(13,873)</u>	<u>(5.6%)</u>	<u>270,722</u>
Total liabilities	<u>233,185</u>	<u>247,058</u>	<u>(13,873)</u>	<u>(5.6%)</u>	<u>270,722</u>
Net position:					
Net investment in capital assets	6,523,985	6,428,897	95,088	1.5%	6,224,253
Unrestricted	<u>4,910,925</u>	<u>4,754,217</u>	<u>156,708</u>	<u>3.3%</u>	<u>3,624,968</u>
Total net position	<u>\$ 11,434,910</u>	<u>\$ 11,183,114</u>	<u>\$ 251,796</u>	<u>2.3%</u>	<u>\$ 9,849,221</u>

The Authority's net position from fiscal years 2011 to 2014 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 3,201,326	\$ 3,177,094	\$ 3,656,068	\$ 3,509,351
Capital assets, net	6,523,985	6,428,897	6,224,253	6,169,659
Other assets	239,622	239,622	239,622	239,668
Investments	1,703,162	1,584,559	-	-
Current liabilities	<u>(233,185)</u>	<u>(247,058)</u>	<u>(270,722)</u>	<u>(303,896)</u>
Net position	<u>\$ 11,434,910</u>	<u>\$ 11,183,114</u>	<u>\$ 9,849,221</u>	<u>\$ 9,614,782</u>

Changes in Net Position

Seaport revenues decreased by 15.7% compared to fiscal year 2013. Overall revenues decreased by 4.4% while operating expenses went up by 32.7% from last year. The increase of expenses by 32.7% did have an impact to the revenue decrease of 15.69% including interest income resulting in a net income of \$251,796.

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

The Authority's changes in net position for fiscal years 2012 to 2014 are as follows:

	<u>2014</u>	<u>2013</u>	<u>FY 2014 vs FY 2013</u> <u>Increase(decrease)</u>		<u>2012</u>
Operating revenues:					
Seaport charges	\$ 2,296,131	\$ 2,723,700	\$ (427,569)		\$ 1,753,423
Land leases and space rentals	475,283	456,583	18,700		417,741
Departure fees	382,805	224,300	158,505		183,440
Landing fees	84,113	91,100	(6,987)		86,750
Other	<u>166,988</u>	<u>43,174</u>	<u>123,814</u>		<u>30,264</u>
Total operating revenues	3,405,320	3,538,857	(133,537) (3.8)%		2,471,618
Recovery of (provision for) doubtful accounts	<u>130,180</u>	<u>160,150</u>	<u>(29,970)</u> (18.7)%		<u>(8,729)</u>
Net operating revenue	<u>3,535,500</u>	<u>3,699,007</u>	<u>(163,507)</u>		<u>2,462,889</u>
Operating expenses:					
Salaries and benefits	1,424,279	1,069,523	354,756		1,049,807
Depreciation	504,845	423,975	80,870		428,183
Repairs and maintenance	98,529	71,353	27,176		55,228
Utilities	315,617	291,487	24,130		244,891
Travel	205,542	101,381	104,161		117,950
Supplies and materials	90,333	88,829	1,504		48,003
Fuel	101,313	105,767	(4,454)		93,680
Communication	41,221	27,108	14,113		35,460
Training	277,499	56,533	220,966		56,453
Contractual services	319,497	134,506	184,991		24,054
Miscellaneous and others	<u>126,058</u>	<u>271,498</u>	<u>(145,440)</u>		<u>80,332</u>
Total operating expenses	<u>3,504,733</u>	<u>2,641,960</u>	<u>862,773</u> 32.7%		<u>2,234,041</u>
Earnings (loss) from operations	<u>30,767</u>	<u>1,057,047</u>	<u>(1,026,280)</u>		<u>228,848</u>
Nonoperating revenues (expenses):					
Operating grants	-	119,000	(119,000)		-
Net investment income	129,325	104,665	24,660		5,591
Capital contributions	<u>91,704</u>	<u>53,181</u>	<u>38,523</u>		<u>-</u>
Total nonoperating revenues, net	<u>221,029</u>	<u>276,846</u>	<u>(55,817)</u> (20.2)%		<u>5,591</u>
Change in net position	<u>\$ 251,796</u>	<u>\$ 1,333,893</u>	<u>\$ (1,082,097)</u> 81.1%		<u>\$ 234,439</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

Capital Assets

Capital assets increased by \$95,088 due to lower depreciation and Net investment in capital assets totaled \$6,523,985.

There are no dispositions for capital assets in FY 2014. However, we do have additions that will affect our depreciation. Additions for capital assets for FY 2014 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 5 to the accompanying financial statements.

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Buildings and improvements	\$15,879,963	\$(13,314,536)	\$2,565,427
Machinery and equipment	2,921,012	(2,148,544)	772,468
Land	2,776,034	-	2,776,034
Construction in progress	<u>410,056</u>	<u>-</u>	<u>410,056</u>
Total	<u>\$21,987,065</u>	<u>\$(15,463,080)</u>	<u>\$6,523,985</u>

Long-Term Debt

The Authority did not have any long-term debt or long-term liabilities existing at September 30, 2014, 2013 and 2012.

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in the Authority's report on the audit of financial statements, which is dated June 26, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at www.fsmopa.fm.

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.

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Years Ended September 30, 2014 and 2013

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
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Statements of Net Position
September 30, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 2,319,476	\$ 2,271,807
Accounts receivable, net	854,035	787,917
Advances	5,746	73,024
Prepaid expenses	<u>22,069</u>	<u>44,346</u>
Total current assets	<u>3,201,326</u>	<u>3,177,094</u>
Noncurrent assets:		
Investments	1,703,162	1,584,559
Advances to FSM National Government	229,868	229,868
Replacement parts, net	9,754	9,754
Depreciable property and equipment, net	3,337,895	3,273,583
Non-depreciable property and equipment	<u>3,186,090</u>	<u>3,155,314</u>
Total noncurrent assets	<u>8,466,769</u>	<u>8,253,078</u>
	<u>\$ 11,668,095</u>	<u>\$ 11,430,172</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 1,037	\$ 38,634
Accrued liabilities and others	69,557	53,155
Due to FSM National Government	78,186	78,186
Accrued annual leave	<u>84,405</u>	<u>77,083</u>
Total current liabilities	<u>233,185</u>	<u>247,058</u>
Commitments and contingency		
Net position:		
Net investment in capital assets	6,523,985	6,428,897
Unrestricted	<u>4,910,925</u>	<u>4,754,217</u>
Total net position	<u>11,434,910</u>	<u>11,183,114</u>
	<u>\$ 11,668,095</u>	<u>\$ 11,430,172</u>

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Seaport charges	\$ 2,296,131	\$ 2,723,700
Land leases and space rentals	475,283	456,583
Departure fees	382,805	224,300
Landing fees	84,113	91,100
Other	<u>166,988</u>	<u>43,174</u>
Total operating revenues	3,405,320	3,538,857
Recovery of doubtful debts	<u>130,180</u>	<u>160,150</u>
Net operating revenues	<u>3,535,500</u>	<u>3,699,007</u>
Operating expenses:		
Salaries and benefits	1,424,279	1,069,523
Depreciation	504,845	423,975
Contractual services	319,497	134,506
Utilities	315,617	291,487
Training	277,499	56,533
Travel	205,542	101,381
Fuel	101,313	105,767
Repairs	98,529	71,353
Supplies and materials	90,333	88,829
Communication	41,221	27,108
Miscellaneous and others	<u>126,058</u>	<u>271,498</u>
Total operating expenses	<u>3,504,733</u>	<u>2,641,960</u>
Earnings from operations	<u>30,767</u>	<u>1,057,047</u>
Nonoperating revenues:		
Operating grants	-	119,000
Net investment income	<u>129,325</u>	<u>104,665</u>
Total nonoperating revenues	<u>129,325</u>	<u>223,665</u>
Earnings before capital contributions	160,092	1,280,712
Capital contributions	<u>91,704</u>	<u>53,181</u>
Change in net position	251,796	1,333,893
Net position at beginning of year	<u>11,183,114</u>	<u>9,849,221</u>
Net position at end of year	<u>\$ 11,434,910</u>	<u>\$ 11,183,114</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 3,469,242	\$ 3,118,796
Cash paid to suppliers for goods and services	(1,507,109)	(1,247,071)
Cash paid to employees	(1,416,957)	(1,069,523)
Net cash provided by operating activities	545,176	802,202
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(599,933)	(628,619)
Advance contribution from the FSM National Government	-	53,181
Net cash used in capital and related financing activities	(599,933)	(575,438)
Cash flows from investing activities:		
Increase in investments, net of redemptions	(26,899)	(1,584,559)
Net investment income	129,325	104,665
Net cash provided by (used in) investment activities	102,426	(1,479,894)
Cash flows from noncapital and related financing activities:		
Operating grants	-	119,000
Net change in cash and cash equivalents	47,669	(1,134,130)
Cash and cash equivalents at beginning of year	2,271,807	3,405,937
Cash and cash equivalents at end of year	\$ 2,319,476	\$ 2,271,807
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$ 30,767	\$ 1,057,047
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	504,845	423,975
Recoveries of doubtful accounts	(130,180)	(160,150)
(Increase) decrease in assets:		
Accounts receivable	64,062	(420,061)
Advances	67,278	(34,810)
Prepaid expense	22,277	(40,135)
Increase (decrease) in liabilities:		
Accounts payable	(37,597)	(32,367)
Accrued liabilities and others	16,402	8,703
Accrued annual leave	7,322	-
Net cash provided by operating activities	\$ 545,176	\$ 802,202

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY
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Notes to Financial Statements
September 30, 2014 and 2013

(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

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.

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.

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.

Net Position

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

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

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

- 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.

Cash and Cash Equivalents

For purposes of the statements of net position and 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, 2014 and 2013, the carrying amount of the Authority's total cash and cash equivalents was \$2,319,476 and \$2,271,807, respectively, and the corresponding bank balances were \$2,388,703 and \$2,367,791, respectively, which are primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014 and 2013, 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

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.

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

Notes to Financial Statements
September 30, 2014 and 2013

(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.

Additionally, investments as of September 30, 2014 include equity investment in a private FSM company of \$100,000, which are recorded at cost as the percentage of ownership approximates 1%.

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. Land is recorded based on an appraisal of the Authority facilities performed during the year ended September 30, 1996.

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 2014, the Authority implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

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 November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(3) Investments

A schedule of investments at fair value, as of September 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Fixed income securities:		
Domestic fixed income	\$ <u>591,758</u>	\$ <u>572,052</u>
Other:		
Cash and cash equivalents	5	15,404
Domestic equities	672,274	656,679
International equities	<u>339,125</u>	<u>340,424</u>
	<u>1,011,404</u>	<u>1,012,507</u>
	\$ <u>1,603,162</u>	\$ <u>1,584,559</u>

POHNPEI PORT AUTHORITY
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Notes to Financial Statements
September 30, 2014 and 2013

(3) Investments, Continued

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.

Investments for fixed income securities are as follows:

		<u>2014</u>	<u>2013</u>
U.S. Treasury obligations	AAAA/AAA	\$ 217,869	\$ 217,285
Mortgage and asset-backed securities	AAA/AA+	143,796	130,578
Corporate notes and bonds	A1/AA+	17,630	18,104
Corporate notes and bonds	A2/A+	17,888	17,740
Corporate notes and bonds	A2/A	17,372	33,968
Corporate notes and bonds	A3/A-	35,658	51,789
Corporate notes and bonds	A3/BBB+	18,054	17,093
Corporate notes and bonds	BAA1/A-	16,971	17,494
Corporate notes and bonds	BAA2/BBB+	17,940	16,777
Corporate notes and bonds	BAA2/BBB+	17,569	17,779
Corporate notes and bonds	BAA3/BBB-	17,734	16,606
Corporate notes and bonds	BAA3/BBB	17,640	16,839
Corporate notes and bonds	BAA3/BBB-	<u>35,637</u>	<u>-</u>
		<u>\$ 591,758</u>	<u>\$ 572,052</u>

As of September 30, 2014, the Authority's fixed income securities had the following maturities:

Investment Type	<u>1 to 5</u> <u>Years</u>	<u>5 to 10</u> <u>Years</u>	<u>Fair</u> <u>Value</u>
U.S. Treasury obligations	\$ 175,917	\$ 41,951	\$ 217,868
Mortgage and asset-backed securities	143,796	-	143,796
Corporate Notes and Bonds	<u>52,540</u>	<u>177,554</u>	<u>230,094</u>
	<u>\$ 372,253</u>	<u>\$ 219,505</u>	<u>\$ 591,758</u>

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

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

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 the Authority's name by the Authority's custodial financial institutions at September 30, 2014 and 2013.

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Notes to Financial Statements
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(3) Investments, Continued

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, 2014, 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, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$ 2,336,116	\$ 2,323,097
Less allowance for doubtful debts	<u>(1,482,081)</u>	<u>(1,535,180)</u>
	<u>\$ 854,035</u>	<u>\$ 787,917</u>

(5) Property and Equipment

Capital asset activity for the years ended September 30, 2014 and 2013, was as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2013</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2014</u>
Non-depreciable:					
Land		\$ 2,776,034	\$ -	\$ -	\$ 2,776,034
Construction in progress		<u>379,280</u>	<u>30,776</u>	-	<u>410,056</u>
		<u>3,155,314</u>	<u>30,776</u>	-	<u>3,186,090</u>
Depreciable:					
Buildings and improvements	7 - 70 years	15,541,259	338,704	-	15,879,963
Machinery and equipment	3 - 5 years	<u>2,690,559</u>	<u>230,453</u>	-	<u>2,921,012</u>
		18,231,818	569,157	-	18,800,975
Less accumulated depreciation		<u>(14,958,235)</u>	<u>(504,845)</u>	-	<u>(15,463,080)</u>
		<u>3,273,583</u>	<u>64,312</u>	-	<u>3,337,895</u>
Property and equipment, net		<u>\$ 6,428,897</u>	<u>\$ 95,088</u>	<u>\$ -</u>	<u>\$ 6,523,985</u>

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Notes to Financial Statements
September 30, 2014 and 2013

(5) Property and Equipment, Continued

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

Construction Commitments

As of September 30, 2014, the Authority had on-going construction commitments of \$410,056.

(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 Authority is party to operating lease agreements for land and concession stands that expire in various dates in 2015 through 2024 with other component units of the Pohnpei State Government or the FSM National government and private corporations. Some of the agreements contain options to renew. The approximate future minimum rental revenues are as follows:

<u>Year ending September 30,</u>	<u>Total</u>
2015	\$ 493,000
2016	376,000
2017	300,000
2018	288,000
2019	200,000
2020 - 2024	<u>420,000</u>
	\$ <u>2,077,000</u>

POHNPEI PORT AUTHORITY
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Notes to Financial Statements
September 30, 2014 and 2013

(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 participants annual salary, when the participants contribute at least 3 percent from their annual salary. Participation is optional. Vesting of the Authority's contributions occurs over a six-year period. The Authority's Human Resources Manager is the designated Plan administrator. Contributions to the Plan during the years ended September 30, 2014, 2013 and 2012 were \$33,965, \$33,495, and \$32,366, respectively. Management is of the opinion that the Plan does not represent an asset or liability of the Authority. As of September 30, 2014 and 2013, plan assets were \$559,720 and \$514,050, 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, 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, 2014, 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 25, 2015.

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.

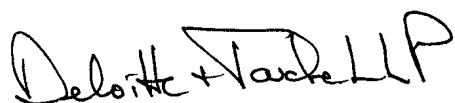
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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

June 25, 2015

POHNPEI PORT AUTHORITY
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Summary Schedule of Prior Year Findings
Year Ended September 30, 2014

There are no prior year findings unresolved as of September 30, 2014.