

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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

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Years Ended September 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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.

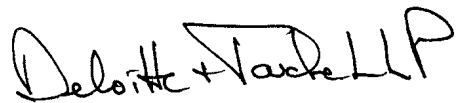
Other Matters

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 7 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 23, 2016, 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 23, 2016

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

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, 2015. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- Operating revenues decreased by \$572,176 or 16.8% from last year.
- Operating expenses were \$1,592 or 0.1% lower compared to fiscal year 2014.
- Current assets decreased by \$842,370 or 26.3%.
- Liabilities increased by \$69,878 or 30%.
- Net position decreased by \$806,961.

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. 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 Position

Current assets decreased by \$842,370 or 26.3%. Capital assets increased by \$186,365 and there was a decrease of \$81,078 in other assets. On the other hand, liabilities increased by \$69,878. Overall, net position decreased by \$806,961.

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

The following summarizes the Authority's financial condition for fiscal years 2013 to 2015:

	<u>2015</u>	<u>2014</u>	<u>FY 15 vs FY 14</u>		<u>2013</u>
			<u>Increase(decrease)</u>		
Current assets	\$ 2,358,956	\$ 3,201,326	\$ (842,370)	(26.3%)	\$ 3,177,094
Advance to FSMNG	229,868	229,868	-	-	229,868
Capital assets, net	6,710,350	6,523,985	186,365	2.9%	6,428,897
Investment	1,622,084	1,703,162	81,078	(4.8%)	1,584,599
Other assets	<u>9,754</u>	<u>9,754</u>	<u>-</u>	<u>-</u>	<u>9,754</u>
 Total assets	 <u>10,931,012</u>	 <u>11,668,095</u>	 <u>(737,083)</u>	 <u>3.0%</u>	 <u>11,430,172</u>
 Current liabilities	 <u>303,063</u>	 <u>233,185</u>	 <u>69,878</u>	 <u>30.0%</u>	 <u>247,058</u>
 Total liabilities	 <u>303,063</u>	 <u>233,185</u>	 <u>69,878</u>	 <u>30.0%</u>	 <u>247,058</u>
 Net position:					
Net investment in capital assets	6,710,350	6,523,985	186,365	2.9%	6,428,897
Unrestricted	<u>3,917,599</u>	<u>4,910,925</u>	<u>(993,326)</u>	<u>(20.2%)</u>	<u>4,754,217</u>
 Total net position	 <u>\$ 10,627,949</u>	 <u>\$ 11,434,910</u>	 <u>\$ (806,961)</u>	 <u>(7.1%)</u>	 <u>\$ 11,183,114</u>

The Authority's net position from fiscal years 2012 to 2015 are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 2,358,956	\$ 3,201,326	\$ 3,177,094	\$ 3,656,068
Capital assets, net	6,710,350	6,523,985	6,428,897	6,224,253
Other assets	239,622	239,622	239,622	239,622
Investment	1,622,084	1,703,162	1,584,559	-
Current liabilities	<u>(303,063)</u>	<u>(233,185)</u>	<u>(247,058)</u>	<u>(270,722)</u>
 Net position	 <u>\$ 10,627,949</u>	 <u>\$ 11,434,910</u>	 <u>\$ 11,183,114</u>	 <u>\$ 9,849,221</u>

Changes in Net Position

Seaport revenues decreased by \$609,871 or 26.6% compared to fiscal year 2014. Overall revenues decreased by 23.3% while operating expenses went down by 0.05% from last year. The significant decrease of revenue by 23.3% resulted in a net loss of \$806,961.

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

The Authority's changes in net position for fiscal years 2013 to 2015 are as follows:

	<u>2015</u>	<u>2014</u>	<u>FY 2015 vs FY 2014</u> <u>Increase (decrease)</u>	<u>2013</u>
Operating revenues:				
Seaport charges	\$ 1,686,260	\$ 2,296,131	\$ (609,871)	\$ 2,723,700
Land leases and space rentals	506,449	475,283	31,166	456,583
Departure fees	373,620	382,805	(9,185)	224,300
Landing fees	82,437	84,113	(1,676)	91,100
Other	<u>184,378</u>	<u>166,988</u>	<u>17,390</u>	<u>43,174</u>
Total operating revenues	2,833,144	3,405,320	(572,176) -16.8%	3,538,857
Bad debt (expense) recovery, net	<u>(121,460)</u>	<u>130,180</u>	<u>(251,640)</u> -193.3%	<u>160,150</u>
Net operating revenue	<u>2,711,684</u>	<u>3,535,500</u>	<u>(823,816)</u>	<u>3,699,007</u>
Operating expenses:				
Salaries and benefits	1,569,049	1,424,279	144,770	1,069,523
Depreciation and amortization	592,411	504,845	87,566	423,975
Repairs and maintenance	101,965	98,529	3,436	71,353
Utilities	283,703	315,617	(31,914)	291,487
Travel	229,288	205,542	23,746	101,381
Supplies and materials	137,932	90,333	47,599	88,829
Fuel	99,419	101,313	(1,894)	105,767
Communication	35,570	41,221	(5,651)	27,108
Training	100,740	277,499	(176,759)	56,533
Contractual services	216,341	319,497	(103,156)	134,506
Miscellaneous and others	<u>136,723</u>	<u>126,058</u>	<u>10,665</u>	<u>271,498</u>
Total operating expenses	<u>3,503,141</u>	<u>3,504,733</u>	<u>(1,592)</u> 0.05%	<u>2,641,960</u>
(Loss) earnings from operations	<u>(791,457)</u>	<u>30,767</u>	<u>(822,224)</u>	<u>1,057,047</u>
Non-operating revenues (expenses):				
Operating grants	-	-	-	119,000
Investment (loss) income, net	(72,590)	129,325	(201,915)	104,665
Gain from sale of property	3,145	-	3,145	-
Capital contributions	<u>53,941</u>	<u>91,704</u>	<u>37,763</u>	<u>53,181</u>
Total non-operating (expenses) revenues, net	<u>(15,504)</u>	<u>221,029</u>	<u>(236,533)</u>	<u>276,846</u>
Change in net position	<u>\$ (806,961)</u>	<u>\$ 251,796</u>	<u>\$ (1,058,757)</u>	<u>\$ 1,333,893</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

Capital Assets

Capital assets increased by \$186,365 during FY 2015 due to additions net of depreciation expense. At September 30, 2015, net investment in capital assets totaled \$6,710,350.

Additions for capital assets for FY 2015 include procurement and installation of two warehouses, departure lounge concession, construction of Pingelap terminal, renovation of CTSI office, steel framed warehouse, two galvanized warehouse, concrete wall within airport terminal, construction of departure lounge restrooms, water drainage system construction, runway backfilling project, outboard motor engines, airport couches, security radio, computers, scanners, and vehicles. For additional information, please see note 5 to the accompanying financial statements.

Summary of capital assets as of September 30, 2015:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Buildings and improvements	\$ 16,378,136	\$ (13,684,416)	\$ 2,693,720
Machinery and equipment	3,139,214	(2,350,058)	789,156
Land	2,776,034	-	2,776,034
Construction in progress	<u>451,440</u>	<u>-</u>	<u>451,440</u>
Total	\$ <u>22,744,824</u>	\$ <u>(16,034,474)</u>	\$ <u>6,710,350</u>

Long-Term Debt

The Authority did not have long-term debt or long-term liabilities at September 30, 2015, 2014 and 2013.

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the Authority's report on the audit of financial statements, which is dated June 25, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at www.fsmopa.fm.

FY 2016 Economic Outlook

PPA will continue to see increases in cost of 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 these investments is yet to be realized pending approval of proposed Airport tariffs and implementation of approved Seaport tariffs.

Additionally, ongoing issues include litigation settlement, and financial assistance to another Component Unit. The ADB loan has been terminated.

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.

POHNPEI PORT AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

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, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 1,657,383	\$ 2,319,476
Accounts receivable, net	639,681	854,035
Advances	27,171	5,746
Prepaid expenses	34,721	22,069
Total current assets	<u>2,358,956</u>	<u>3,201,326</u>
Noncurrent assets:		
Investments	1,622,084	1,703,162
Advances to FSM National Government	229,868	229,868
Replacement parts, net	9,754	9,754
Depreciable property and equipment, net	3,482,876	3,337,895
Non-depreciable property and equipment	3,227,474	3,186,090
Total noncurrent assets	<u>8,572,056</u>	<u>8,466,769</u>
	<u>\$ 10,931,012</u>	<u>\$ 11,668,095</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 34,869	\$ 1,037
Accrued liabilities and others	93,230	69,557
Due to FSM National Government	78,186	78,186
Accrued annual leave	81,377	84,405
Unearned revenue	15,401	-
Total current liabilities	<u>303,063</u>	<u>233,185</u>
Commitments and contingency		
Net position:		
Net investment in capital assets	6,710,350	6,523,985
Unrestricted	3,917,599	4,910,925
Total net position	<u>10,627,949</u>	<u>11,434,910</u>
	<u>\$ 10,931,012</u>	<u>\$ 11,668,095</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Seaport charges	\$ 1,686,260	\$ 2,296,131
Land leases and space rentals	506,449	475,283
Departure fees	373,620	382,805
Landing fees	82,437	84,113
Other	<u>184,378</u>	<u>166,988</u>
Total operating revenues	2,833,144	3,405,320
Bad debt (expense) recovery	<u>(121,460)</u>	<u>130,180</u>
Net operating revenues	<u>2,711,684</u>	<u>3,535,500</u>
Operating expenses:		
Salaries and benefits	1,569,049	1,424,279
Depreciation	592,411	504,845
Utilities	283,703	315,617
Travel	229,288	205,542
Contractual services	216,341	319,497
Supplies and materials	137,932	90,333
Repairs	101,965	98,529
Training	100,740	277,499
Fuel	99,419	101,313
Communication	35,570	41,221
Miscellaneous and others	<u>136,723</u>	<u>126,058</u>
Total operating expenses	<u>3,503,141</u>	<u>3,504,733</u>
(Loss) earnings from operations	<u>(791,457)</u>	<u>30,767</u>
Nonoperating revenues (expenses), net:		
Investment (loss) income, net	(72,590)	129,325
Gain from sale of assets	<u>3,145</u>	<u>-</u>
Total nonoperating (expenses) revenues, net	<u>(69,445)</u>	<u>129,325</u>
(Loss) earnings before capital contributions	(860,902)	160,092
Capital contributions	<u>53,941</u>	<u>91,704</u>
Change in net position	(806,961)	251,796
Net position at beginning of year	<u>11,434,910</u>	<u>11,183,114</u>
Net position at end of year	<u>\$ 10,627,949</u>	<u>\$ 11,434,910</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	\$ 2,920,014	\$ 3,536,660
Cash paid to suppliers for goods and services	(1,296,828)	(1,574,527)
Cash paid to employees	(1,572,077)	(1,416,957)
Net cash provided by operating activities	51,109	545,176
Cash flows from capital and related financing activities:		
Procees from sale of property and equipment	3,145	-
Acquisition of property and equipment	(778,776)	(599,933)
Contributions for capital projects	53,941	91,704
Net cash used in capital and related financing activities	(721,690)	(508,229)
Cash flows from investing activities:		
Interest income	8,488	10,722
Net cash provided by investment activities	8,488	10,722
Net change in cash and cash equivalents	(662,093)	47,669
Cash and cash equivalents at beginning of year	2,319,476	2,271,807
Cash and cash equivalents at end of year	\$ 1,657,383	\$ 2,319,476
Reconciliation of (loss) earnings from operations to net cash provided by operating activities:		
(Loss) earnings from operations	\$ (791,457)	\$ 30,767
Adjustments to reconcile (loss) earnings from operations to net cash provided by operating activities:		
Depreciation	592,411	504,845
Bad debt expense (recovery)	121,460	(130,180)
(Increase) decrease in assets:		
Accounts receivable	92,894	64,062
Advances	(21,425)	67,278
Prepaid expense	(12,652)	22,277
Increase (decrease) in liabilities:		
Accounts payable	33,832	(37,597)
Accrued liabilities and others	23,673	16,402
Accrued annual leave	(3,028)	7,322
Unearned revenue	15,401	-
Net cash provided by operating activities	\$ 51,109	\$ 545,176

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014

(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, 2015 and 2014, the carrying amount of the Authority's total cash and cash equivalents was \$1,657,383 and \$2,319,476, respectively, and the corresponding bank balances were \$1,766,328 and \$2,388,703, respectively, which are primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015 and 2014, 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, 2015 and 2014

(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. 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.

Reclassification

Certain balances in the 2014 financial statements have been reclassified to conform to 2015 presentation.

New Accounting Standards

During fiscal year 2015, the Authority implemented the following pronouncements:

- GASB *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 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, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of the Authority.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the financial statements of the Authority.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the financial statements of the Authority.

POHNPEI PORT AUTHORITY
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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has not evaluated the impact that the implementation of this statement will have on the financial statements of the Authority.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. 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, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Fixed income securities:		
Domestic fixed income	\$ <u>585,052</u>	\$ <u>591,758</u>
Other:		
Cash and cash equivalents	-	5
Domestic equities	635,932	672,274
International equities	<u>301,100</u>	<u>339,125</u>
	<u>937,032</u>	<u>1,011,404</u>
	\$ <u>1,522,084</u>	\$ <u>1,603,162</u>

Additionally, investments as of September 30, 2015 include equity investment in a private FSM company of \$100,000, which are recorded at cost as the percentage of ownership approximates 1%.

POHNPEI PORT AUTHORITY
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Notes to Financial Statements
September 30, 2015 and 2014

(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>2015</u>	<u>2014</u>
U.S. Treasury obligations	AAAA/AAA	\$ 238,431	\$ 217,869
Mortgage and asset-backed securities	AAA/AA+	145,769	143,796
Corporate notes and bonds	A1/AA+	19,877	17,630
Corporate notes and bonds	A2/A+	17,559	17,888
Corporate notes and bonds	A2/A	17,275	17,372
Corporate notes and bonds	A3/A-	34,220	35,658
Corporate notes and bonds	A3/BBB+	17,310	18,054
Corporate notes and bonds	BAA1/A-	-	16,971
Corporate notes and bonds	BAA2/BBB+	35,223	17,940
Corporate notes and bonds	BAA2/BBB-	-	17,569
Corporate notes and bonds	BAA3/BBB-	16,726	17,734
Corporate notes and bonds	BAA3/BBB	-	17,640
Corporate notes and bonds	BAA3/BBB-	<u>42,662</u>	<u>35,637</u>
		<u>\$ 585,052</u>	<u>\$ 591,758</u>

As of September 30, 2015, the Authority's fixed income securities had the following maturities:

Investment Type	<u>1 to 5 Years</u>	<u>5 to 10 Years</u>	<u>Fair Value</u>
U.S. Treasury obligations	\$ 188,832	\$ 49,599	\$ 238,431
Mortgage and asset-backed securities	145,769	-	145,769
Corporate Notes and Bonds	<u>64,789</u>	<u>136,063</u>	<u>200,852</u>
	<u>\$ 399,390</u>	<u>\$ 185,662</u>	<u>\$ 585,052</u>

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

Investment Type	<u>1 to 5 Years</u>	<u>5 to 10 Years</u>	<u>Fair 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>

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, 2015 and 2014.

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Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 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, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Accounts receivable	\$ 2,243,222	\$ 2,336,116
Less allowance for doubtful debts	<u>(1,603,541)</u>	<u>(1,482,081)</u>
	<u>\$ 639,681</u>	<u>\$ 854,035</u>

(5) Property and Equipment

Capital asset activity for the years ended September 30, 2015 and 2014, was as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2014</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2015</u>
Non-depreciable:					
Land		\$ 2,776,034	\$ -	\$ -	\$ 2,776,034
Construction in progress		<u>410,056</u>	<u>539,557</u>	<u>(498,173)</u>	<u>451,440</u>
		<u>3,186,090</u>	<u>539,557</u>	<u>(498,173)</u>	<u>3,227,474</u>
Depreciable:					
Buildings and improvements	7 - 70 years	15,879,963	498,173	-	16,378,136
Machinery and equipment	3 - 5 years	<u>2,921,012</u>	<u>241,219</u>	<u>(23,017)</u>	<u>3,139,214</u>
		18,800,975	739,392	(23,017)	19,517,350
Less accumulated depreciation		<u>(15,463,080)</u>	<u>(594,411)</u>	<u>23,017</u>	<u>(16,034,474)</u>
		<u>3,337,895</u>	<u>144,981</u>	<u>-</u>	<u>3,482,876</u>
Property and equipment, net		<u>\$ 6,523,985</u>	<u>\$ 684,538</u>	<u>\$ (498,173)</u>	<u>\$ 6,710,350</u>

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Notes to Financial Statements
September 30, 2015 and 2014

(5) Property and Equipment, Continued

	<u>Estimated Estimated Useful Lives</u>	<u>Balance at Balance at October 1, 2013</u>	<u>Transfers Transfers and Additions</u>	<u>Transfers Transfers and Deletions</u>	<u>Balance at 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>-</u>	<u>410,056</u>
		<u>3,155,314</u>	<u>30,776</u>	<u>-</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>-</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>-</u>	<u>(15,463,080)</u>
		<u>3,273,583</u>	<u>64,312</u>	<u>-</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>

Construction Commitments

As of September 30, 2015, the Authority had on-going construction commitments of approximately \$410,000.

(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 Authority's results of operations, and as such, no adjustments have been recorded in 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 2016 through 2023 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>
2016	\$ 454,700
2017	429,500
2018	347,300
2019	230,400
2020	168,600
2021 - 2023	<u>370,400</u>
	\$ <u>2,000,900</u>

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Notes to Financial Statements
September 30, 2015 and 2014

(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. 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, 2015 and 2014 were \$32,759 and \$33,965, respectively. Management is of the opinion that the Plan does not represent an asset or liability of the Authority. As of September 30, 2015 and 2014, plan assets were \$581,699 and \$559,720, respectively.

(10) Subsequent Event

Effective October 1, 2015, Pohnpei State Law 8L-83-15 requires that 30% of the Authority's mooring anchorage fees be remitted to the Pohnpei State Government.

**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, 2015, 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 23, 2016.

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.

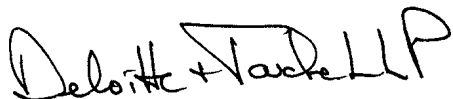
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 + Aucke LLP". The signature is written in a cursive, stylized font.

June 23, 2016

POHNPEI PORT AUTHORITY
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Summary Schedule of Prior Year Findings
Year Ended September 30, 2015

There are no prior year findings unresolved as of September 30, 2015.