

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

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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

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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, 2019 and 2018, 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 Pohapei Port Authority as of September 30, 2019 and 2018, 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 9, 2020, 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.

*Deloitte & Touche LLP*

June 9, 2020

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

Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

Our discussion and analysis of the Pohnpei Port Authority's ("the Authority" or "PPA") financial performance provides an overview of the Authority's financial activities for fiscal year (FY) ended September 30, 2019.

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

**Financial Highlights**

- Operating revenues decreased by \$625,286 or 13.4% from last year.
- Operating expenses were \$322,391 or 9.6% higher compared to fiscal year 2018.
- Current assets increased by \$132,828 or 2.2%.
- Liabilities increased by \$313,915 or 78.2%.
- Net position increased by \$122,843 or 0.97%.

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

**The Statement of Net 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 present 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 present 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.

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

Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

***A Financial Analysis of the Authority as a Whole***

**Net Position**

Current assets increased by \$132,828 or 2.2%. Investments increased by \$30,216 or 12.5%. Capital assets increased by \$273,714 or 4.2%. On the other hand, liabilities increased by \$313,915 or 78.2%. Overall, net position increased by \$122,843.

The following summarizes the Authority's financial condition for fiscal years 2017 to 2019:

|                                    | <u>2019</u>              | <u>2018</u>              | <u>FY 19 vs FY 18</u>     |                  | <u>2017</u>              |
|------------------------------------|--------------------------|--------------------------|---------------------------|------------------|--------------------------|
|                                    |                          |                          | <u>Increase(decrease)</u> |                  |                          |
| Current assets                     | \$ 6,172,422             | \$ 6,039,594             | \$ 132,828                | 2.2%             | \$ 4,720,212             |
| Advance to FSMNG                   | 229,868                  | 229,868                  | -                         | -                | 229,868                  |
| Capital assets, net                | 6,816,371                | 6,542,657                | 273,714                   | 4.2%             | 6,505,111                |
| Investment                         | <u>272,304</u>           | <u>242,088</u>           | <u>30,216</u>             | <u>12.5%</u>     | <u>234,790</u>           |
| <br>Total assets                   | <br>\$ <u>13,490,965</u> | <br>\$ <u>13,054,207</u> | <br>\$ <u>436,758</u>     | <br><u>3.4%</u>  | <br>\$ <u>11,689,981</u> |
| <br>Current liabilities            | <br><u>715,327</u>       | <br><u>401,412</u>       | <br><u>313,915</u>        | <br><u>78.2%</u> | <br><u>341,412</u>       |
| <br>Total liabilities              | <br><u>715,327</u>       | <br><u>401,412</u>       | <br><u>313,915</u>        | <br><u>78.2%</u> | <br><u>341,412</u>       |
| <br>Net Position:                  |                          |                          |                           |                  |                          |
| Invested in capital assets         | 6,816,371                | 6,542,657                | 273,714                   | 4.2%             | 6,505,111                |
| Unrestricted                       | <u>5,959,267</u>         | <u>6,110,138</u>         | <u>(150,871)</u>          | <u>(2.5%)</u>    | <u>4,843,458</u>         |
| <br>Total net position             | <br><u>12,775,638</u>    | <br><u>12,652,795</u>    | <br><u>122,843</u>        | <br><u>0.9%</u>  | <br><u>11,348,569</u>    |
| Total liabilities and net position | <u>\$ 13,490,965</u>     | <u>\$ 13,054,207</u>     | <u>\$ 436,758</u>         | <u>3.4%</u>      | <u>\$ 11,689,981</u>     |

The Authority's net position from fiscal years 2016 to 2019 are as follows:

|                     | <u>2019</u>             | <u>2018</u>              | <u>2017</u>             | <u>2016</u>             |
|---------------------|-------------------------|--------------------------|-------------------------|-------------------------|
| Current assets      | \$ 6,172,422            | \$ 6,039,594             | \$ 4,720,212            | \$ 2,085,543            |
| Capital assets, net | 6,816,371               | 6,542,657                | 6,505,111               | 6,496,102               |
| Other assets        | 229,868                 | 229,868                  | 229,868                 | 239,622                 |
| Investment          | 272,304                 | 242,088                  | 234,790                 | 1,827,543               |
| Current liabilities | <u>(715,327)</u>        | <u>(401,412)</u>         | <u>(341,412)</u>        | <u>(324,788)</u>        |
| <br>Net Position    | <br><u>\$12,775,638</u> | <br><u>\$ 12,652,795</u> | <br><u>\$11,348,569</u> | <br><u>\$10,324,022</u> |

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

Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

**Changes in Net Position**

Seaport revenues decreased by \$683,507 or 22.1% compared to fiscal year 2018. Overall revenues decreased by \$625,286 or 13.4% while operating expenses increased by \$322,391 or 9.6% from last year. The increase of expenses by 9.6% did have an impact to the revenue decrease of 13.4% resulting in net earnings of \$122,843.

The Authority's changes in Net Position for fiscal years 2017 to 2019 are as follows:

|   | <u>2019</u>       | <u>2018</u>         | <u>FY 2019 vs FY 2018</u> |                 | <u>2017</u>         |
|---|-------------------|---------------------|---------------------------|-----------------|---------------------|
|   |                   |                     | <u>Increase(decrease)</u> |                 |                     |
| Operating revenues:                         |                   |                     |                           |                 |                     |
| Seaport charges                             | \$ 2,416,614      | \$ 3,100,121        | \$ (683,507)              | 22.1%           | \$ 2,621,111        |
| Land leases and space rentals               | 610,052           | 599,548             | 10,504                    |                 | 614,001             |
| Departure fees                              | 532,885           | 516,115             | 16,770                    |                 | 450,105             |
| Landing fees                                | 117,933           | 114,319             | 3,614                     |                 | 101,746             |
| Other                                       | <u>356,471</u>    | <u>329,138</u>      | <u>27,333</u>             |                 | <u>433,988</u>      |
| Total operating revenues                    | 4,033,955         | 4,659,241           | (625,286)                 | (13.4%)         | 4,220,951           |
| Bad debt (expense) recoveries               | <u>-</u>          | <u>(30,641)</u>     | <u>30,641</u>             | <u>(100%)</u>   | <u>93,081</u>       |
| Net operating revenue                       | <u>4,033,955</u>  | <u>4,628,600</u>    | <u>(594,645)</u>          | <u>(12.9%)</u>  | <u>4,314,032</u>    |
| Operating expenses:                         |                   |                     |                           |                 |                     |
| Salaries and benefits                       | 1,666,852         | 1,517,313           | 149,539                   |                 | 1,582,159           |
| Contractual services                        | 510,300           | 533,998             | (23,698)                  |                 | 413,249             |
| Depreciation                                | 448,343           | 417,595             | 30,748                    |                 | 506,806             |
| Utilities                                   | 257,966           | 221,639             | 36,327                    |                 | 234,116             |
| Repairs                                     | 181,324           | 154,321             | 27,003                    |                 | 106,812             |
| Supplies and materials                      | 139,391           | 96,463              | 42,928                    |                 | 112,055             |
| Travel                                      | 98,828            | 84,548              | 14,280                    |                 | 94,985              |
| Training                                    | 95,441            | 141,115             | (45,674)                  |                 | 92,238              |
| Fuel  | 90,872            | 74,118              | 16,754                    |                 | 62,789              |
| Equipment rental                            | 51,308            | 6,325               | 44,983                    |                 | 7,848               |
| Communication                               | 32,518            | 31,974              | 544                       |                 | 33,656              |
| Miscellaneous and others                    | <u>103,489</u>    | <u>74,832</u>       | <u>28,657</u>             |                 | <u>77,163</u>       |
| Total operating expenses                    | <u>3,676,632</u>  | <u>3,354,241</u>    | <u>322,391</u>            | 9.6%            | <u>3,323,876</u>    |
| Income from operations                      | <u>357,323</u>    | <u>1,274,359</u>    | <u>(917,036)</u>          | (72%)           | <u>990,156</u>      |
| Non-operating revenues (expenses):          |                   |                     |                           |                 |                     |
| Litigation settlement loss                  | (300,000)         | -                   | (300,000)                 |                 | -                   |
| Interest income                             | 57,321            | 26,674              | 30,647                    |                 | 29,450              |
| Gain from sale of property                  | <u>8,199</u>      | <u>3,193</u>        | <u>5,006</u>              |                 | <u>4,941</u>        |
| Total non-operating (expense) revenues, net | <u>(234,480)</u>  | <u>29,867</u>       | <u>(264,347)</u>          | <u>(885.1%)</u> | <u>34,391</u>       |
| Change in net position                      | \$ <u>122,843</u> | \$ <u>1,304,226</u> | \$ <u>(1,181,383)</u>     | <u>90.6%</u>    | \$ <u>1,024,547</u> |

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

Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

**Capital Assets**

Capital assets increased by \$273,714 during FY 2019. Net investment in capital assets totaled \$6,816,371 at September 30, 2019.

Additions for capital assets for FY 2019 include renovation of PPA hangar, construction of Seaport workshop, terminal repainting project; Seaport office renovation; Search room construction; Departure re-varnish project and Admin repainting project.

Summary of capital assets as of September 30, 2019:

|                            | <u>Cost</u>         | <u>Accumulated<br/>Depreciation</u> | <u>Book Value</u>  |
|----------------------------|---------------------|-------------------------------------|--------------------|
| Buildings and improvements | \$17,971,115        | \$(14,600,994)                      | \$3,370,121        |
| Machinery and equipment    | 3,996,164           | (3,325,948)                         | 670,216            |
| Land                       | <u>2,776,034</u>    | -                                   | <u>2,776,034</u>   |
| Total                      | <u>\$24,743,313</u> | <u>\$(17,926,942)</u>               | <u>\$6,816,371</u> |

**Long-Term Debt**

The Authority did not have any long-term debt or long-term liabilities existing at September 30, 2019, 2018, and 2017.

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in the Authority's report on the audit of financial statements, which is dated April 19, 2019. That Discussion and Analysis explains the major factors impacting the 2018 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at [www.fsmopa.fm](http://www.fsmopa.fm).

**FY 2020 Economic Outlook**

PPA will continue to see increase in cost of utilities and fuel with the completion of the terminal departure lounge enclosure. PPA received a check for \$27,500 as a contribution for this project including purchase of air conditioners for use in this area.

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.

The Governor signed the new Seaport Rules and Regulations on August 21, 2019. However, booklets were received on December 23, 2019. Implementation of the new tariffs went into effect on January 1, 2020.

Due to the COVID-19 pandemic, PPA is faced with challenges of decreased number of flights coming into Pohnpei that have caused a significant decrease in our airport revenues. In the months of April and May 2020, there were only three flights in April and four flights in May, respectively. Governor's declaration have banned incoming passengers and very limited out going passengers, too.

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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

Seaport activities are also minimized due to COVID-19 where only FSM flag carrier vessels are allowed to do transshipment activated in the anchorage area. With the soaring cost of operation and fewer fishing vessels calling on the port, PPA is challenged to use its limited resources prudently in order to secure vital equipment, upgrade infrastructure, subsidize the Airport operation and maintain positive trends in results of operation.

**Contacting the Authority's Financial Management**

This financial report is designed to provide our customers, creditors, Board of Directors and other interested parties with the general overview of the Authority's financial activities. Questions or additional financial information can be asked or obtained from Finance Division with the permission of the General Manager at P.O. Box 1150, Pohnpei, FM 96941.

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

Statements of Net Position  
September 30, 2019 and 2018

| <u>ASSETS</u>                               | <u>2019</u>          | <u>2018</u>          |
|---|----------------------|----------------------|
| Current assets:                             |                      |                      |
| Cash and cash equivalents                   | \$ 5,559,782         | \$ 5,526,850         |
| Accounts receivable, net                    | 460,191              | 448,591              |
| Advances                                    | 49,637               | 32,471               |
| Prepaid expenses                            | <u>102,812</u>       | <u>31,682</u>        |
| Total current assets                        | <u>6,172,422</u>     | <u>6,039,594</u>     |
| Noncurrent assets:                          |                      |                      |
| Investments                                 | 272,304              | 242,088              |
| Advances to FSM National Government         | 229,868              | 229,868              |
| Depreciable property and equipment, net     | 4,040,337            | 3,751,803            |
| Non-depreciable property and equipment      | <u>2,776,034</u>     | <u>2,790,854</u>     |
| Total noncurrent assets                     | <u>7,318,543</u>     | <u>7,014,613</u>     |
|   | <u>\$ 13,490,965</u> | <u>\$ 13,054,207</u> |
| <br><u>LIABILITIES AND NET POSITION</u><br> |                      |                      |
| Current liabilities:                        |                      |                      |
| Accounts payable                            | \$ 23,587            | \$ 21,473            |
| Accrued liabilities and others              | 506,129              | 188,905              |
| Due to FSM National Government              | 77,782               | 77,782               |
| Due to Pohnpei State Government             | 9,713                | 20,685               |
| Accrued annual leave                        | <u>98,116</u>        | <u>92,567</u>        |
| Total current liabilities                   | <u>715,327</u>       | <u>401,412</u>       |
| Commitments and contingency                 |                      |                      |
| Net position:                               |                      |                      |
| Net investment in capital assets            | 6,816,371            | 6,542,657            |
| Unrestricted                                | <u>5,959,267</u>     | <u>6,110,138</u>     |
| Total net position                          | <u>12,775,638</u>    | <u>12,652,795</u>    |
|   | <u>\$ 13,490,965</u> | <u>\$ 13,054,207</u> |

See accompanying notes to financial statements.

**POHNPEI PORT AUTHORITY**

(A Component Unit of the State of Pohnpei)

Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended September 30, 2019 and 2018

|  | <u>2019</u>          | <u>2018</u>          |
|--|----------------------|----------------------|
| Operating revenues:                        |                      |                      |
| Seaport charges                            | \$ 2,416,614         | \$ 3,100,121         |
| Land leases and space rentals              | 610,052              | 599,548              |
| Departure fees                             | 532,885              | 516,115              |
| Landing fees                               | 117,933              | 114,319              |
| Other                                      | 356,471              | 329,138              |
|  | <u>4,033,955</u>     | <u>4,659,241</u>     |
| Total operating revenues                   | 4,033,955            | 4,659,241            |
| Bad debt expense                           | <u>-</u>             | <u>30,641</u>        |
| Net operating revenues                     | <u>4,033,955</u>     | <u>4,628,600</u>     |
| Operating expenses:                        |                      |                      |
| Salaries and benefits                      | 1,666,852            | 1,517,313            |
| Contractual services                       | 510,300              | 533,998              |
| Depreciation                               | 448,343              | 417,595              |
| Utilities                                  | 257,966              | 221,639              |
| Repairs                                    | 181,324              | 154,321              |
| Supplies and materials                     | 139,391              | 96,463               |
| Travel                                     | 98,828               | 84,548               |
| Training                                   | 95,441               | 141,115              |
| Fuel                                       | 90,872               | 74,118               |
| Equipment rental                           | 51,308               | 6,325                |
| Communication                              | 32,518               | 31,974               |
| Miscellaneous                              | 103,489              | 74,832               |
|  | <u>3,676,632</u>     | <u>3,354,241</u>     |
| Total operating expenses                   | 3,676,632            | 3,354,241            |
| Income from operations                     | <u>357,323</u>       | <u>1,274,359</u>     |
| Nonoperating (expense) revenues, net:      |                      |                      |
| Litigation settlement loss                 | (300,000)            | -                    |
| Interest and investment income             | 57,321               | 26,674               |
| Gain from sale of assets                   | 8,199                | 3,193                |
|  | <u>(234,480)</u>     | <u>29,867</u>        |
| Total nonoperating (expense) revenues, net | (234,480)            | 29,867               |
| Change in net position                     | 122,843              | 1,304,226            |
| Net position at beginning of year          | <u>12,652,795</u>    | <u>11,348,569</u>    |
| Net position at end of year                | <u>\$ 12,775,638</u> | <u>\$ 12,652,795</u> |

See accompanying notes to financial statements.

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

Statements of Cash Flows  
Years Ended September 30, 2019 and 2018

|   | 2019         | 2018         |
|---|--------------|--------------|
| Cash flows from operating activities:   |              |              |
| Cash received from customers  | \$ 4,171,841 | \$ 4,734,471 |
| Cash paid to suppliers for goods and services   | (1,790,853)  | (1,539,403)  |
| Cash paid to employees  | (1,661,303)  | (1,510,266)  |
| Net cash provided by operating activities   | 719,685      | 1,684,802    |
| Cash flows from capital and related financing activities:                                     |              |              |
| Proceeds from sale of property and equipment  | 8,199        | 4,435        |
| Acquisition of property and equipment   | (722,057)    | (456,383)    |
| Net cash used in capital and related financing activities                                     | (713,858)    | (451,948)    |
| Cash flows from investing activities:   |              |              |
| Interest and investment income  | 27,105       | 19,376       |
| Net cash provided by investment activities  | 27,105       | 19,376       |
| Net change in cash and cash equivalents   | 32,932       | 1,252,230    |
| Cash and cash equivalents at beginning of year  | 5,526,850    | 4,274,620    |
| Cash and cash equivalents at end of year  | \$ 5,559,782 | \$ 5,526,850 |
| Reconciliation of income from operations to net cash provided by operating activities:        |              |              |
| Income from operations  | \$ 357,323   | \$ 1,274,359 |
| Adjustments to reconcile income from operations to net cash provided by operating activities: |              |              |
| Depreciation  | 448,343      | 417,595      |
| Litigation settlement loss  | (300,000)    | -            |
| Bad debt expense  | -            | 30,641       |
| Increase in assets:   |              |              |
| Accounts receivable   | (11,600)     | (85,648)     |
| Advances  | (17,166)     | (5,774)      |
| Prepaid expenses  | (71,130)     | (6,371)      |
| Increase (decrease) in liabilities:   |              |              |
| Accounts payable  | 2,114        | 4,921        |
| Accrued liabilities and others  | 317,224      | 47,900       |
| Due to Pohnpei State Government   | (10,972)     | 132          |
| Accrued annual leave  | 5,549        | 7,047        |
| Net cash provided by operating activities   | \$ 719,685   | \$ 1,684,802 |

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2019 and 2018

(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:

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Notes to Financial Statements  
September 30, 2019 and 2018

(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, 2019 and 2018, the carrying amount of the Authority's total cash and cash equivalents was \$5,559,782 and \$5,526,850, respectively, and the corresponding bank balances were \$5,640,416 and \$5,664,695, respectively, which are primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019 and 2018, 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 doubtful 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. At September 30, 2019 and 2018, receivables are net of an allowance for doubtful accounts of \$488,460 and \$488,832, respectively.

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September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

An equity investment in the common stock of Bank of FSM (investee) is stated at net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholder's equities reported by the investee.

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.

Reclassifications

Certain balances in the 2018 financial statements have been reclassified to conform with the 2019 financial statement presentation.

New Accounting Standards

During the year ended September 30, 2019 the Authority implemented the following pronouncements, which had no material effect to the accompanying financial statements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

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(3) Investments

At September 30, 2019 and 2018, investments represent 10,000 common shares in Bank of FSM (BFSM), which approximated 1% ownership interest. The total shareholders' equity reported by BFSM approximated \$25,449,000 and \$22,625,000 at September 30, 2019 and 2018, respectively.

(4) Property and Equipment

Capital asset activities for the years ended September 30, 2019 and 2018, were as follows:

|                               | Estimated<br>Useful<br>Lives | Balance at<br>October 1<br>2018 | Transfers<br>and<br>Additions | Transfers<br>and<br>Deletions | Balance at<br>September 30,<br>2019 |
|-------------------------------|------------------------------|---------------------------------|-------------------------------|-------------------------------|-------------------------------------|
| Non-depreciable:              |                              |                                 |                               |                               |                                     |
| Land                          |                              | \$ 2,776,034                    | \$ -                          | \$ -                          | \$ 2,776,034                        |
| Construction in progress      |                              | <u>14,820</u>                   | <u>(14,820)</u>               | <u>-</u>                      | <u>-</u>                            |
|                               |                              | <u>2,790,854</u>                | <u>(14,820)</u>               | <u>-</u>                      | <u>2,776,034</u>                    |
| Depreciable:                  |                              |                                 |                               |                               |                                     |
| Buildings and improvements    | 7 - 70 years                 | 17,760,090                      | 211,025                       | -                             | 17,971,115                          |
| Machinery and equipment       | 3 - 5 years                  | <u>3,524,322</u>                | <u>525,852</u>                | <u>(54,010)</u>               | <u>3,996,164</u>                    |
|                               |                              | 21,284,412                      | 736,877                       | (54,010)                      | 21,967,279                          |
| Less accumulated depreciation |                              | <u>(17,532,609)</u>             | <u>(448,343)</u>              | <u>54,010</u>                 | <u>(17,926,942)</u>                 |
|                               |                              | <u>3,751,803</u>                | <u>288,534</u>                | <u>-</u>                      | <u>4,040,337</u>                    |
| Property and equipment, net   |                              | \$ <u>6,542,657</u>             | \$ <u>273,714</u>             | \$ <u>-</u>                   | \$ <u>6,816,371</u>                 |

|                               | Estimated<br>Useful<br>Lives | Balance at<br>October 1<br>2017 | Transfers<br>and<br>Additions | Transfers<br>and<br>Deletions | Balance at<br>September 30,<br>2018 |
|-------------------------------|------------------------------|---------------------------------|-------------------------------|-------------------------------|-------------------------------------|
| Non-depreciable:              |                              |                                 |                               |                               |                                     |
| Land                          |                              | \$ 2,776,034                    | \$ -                          | \$ -                          | \$ 2,776,034                        |
| Construction in progress      |                              | <u>139,476</u>                  | <u>57,156</u>                 | <u>(181,812)</u>              | <u>14,820</u>                       |
|                               |                              | <u>2,915,510</u>                | <u>57,156</u>                 | <u>(181,812)</u>              | <u>2,790,854</u>                    |
| Depreciable:                  |                              |                                 |                               |                               |                                     |
| Buildings and improvements    | 7 - 70 years                 | 17,386,353                      | 373,737                       | -                             | 17,760,090                          |
| Machinery and equipment       | 3 - 5 years                  | <u>3,353,604</u>                | <u>207,302</u>                | <u>(36,584)</u>               | <u>3,524,322</u>                    |
|                               |                              | 20,739,957                      | 581,039                       | (36,584)                      | 21,284,412                          |
| Less accumulated depreciation |                              | <u>(17,150,356)</u>             | <u>(417,595)</u>              | <u>35,342</u>                 | <u>(17,532,609)</u>                 |
|                               |                              | <u>3,589,601</u>                | <u>163,444</u>                | <u>(1,242)</u>                | <u>3,751,803</u>                    |
| Property and equipment, net   |                              | \$ <u>6,505,111</u>             | \$ <u>220,600</u>             | \$ <u>(183,054)</u>           | \$ <u>6,542,657</u>                 |

(5) Related Party Transactions

During the years ended September 30, 2019 and 2018, the Authority recorded, as net of seaport charges, \$117,309 and \$166,652 due to the Pohnpei State Government (PSG), respectively. The amount represents 30% of anchorage fees which are required to be remitted to PSG pursuant to Public Law 8L-83-15, effective October 1, 2015. At September 30, 2019 and 2018, unremitted balance of \$9,713 and \$20,685, respectively, is presented as due to PSG in the accompanying financial statements.

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Notes to Financial Statements  
September 30, 2019 and 2018

(6) Risk Management

The Authority purchases insurance to cover workmen's compensation and life insurance risks and is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

(7) Future Rental Revenues

The Authority is a party to operating lease agreements for land and concession stands that expire in various dates through 2044 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</u><br><u>September 30,</u> |                     |
|--|---------------------|
| 2020                                       | \$ 627,000          |
| 2021                                       | 532,000             |
| 2022                                       | 300,000             |
| 2023                                       | 240,000             |
| 2024                                       | 150,000             |
| Thereafter                                 | <u>2,295,000</u>    |
|  | <u>\$ 4,144,000</u> |

(8) Retirement 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, 2019 and 2018 were \$44,979 and \$44,166, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Authority. As of September 30, 2019 and 2018, plan assets were \$812,686 and \$752,719, respectively.

(9) 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.

During the year ended September 30, 2019, the Authority entered into a legal settlement discussion with a former tenant. The settlement of \$300,000 was subsequently paid in October 2019 and has been accrued in the accompanying financial statements.

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(10) Subsequent Event

As a result of the spread of COVID-19 coronavirus, governments worldwide implemented actions to restrict travel and economic activities. Uncertainties have arisen which may have negative impact on the Authority's financial and operational results, including decreased revenues due to limited flights and vessel arrivals. Such potential impacts are unknown at this time.

Management has considered subsequent events through June 9, 2020, upon which the financial statements were available to be issued. There were no other material subsequent events that would require recognition or disclosure in the financial statements for the year-ended September 30, 2019.

**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 Pohnpei Port Authority (the Authority), which comprise the statements of net position as September 30, 2019, 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 9, 2020.

### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

*Deloitte & Touche LLP*

June 9, 2020

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(A Component Unit of the State of Pohnpei)

Schedule of Prior Audit Findings  
Year Ended September 30, 2019

Summary Schedule of Prior Audit Findings

| <u>Finding Number</u> | <u>Finding Title</u>  | <u>Status</u>          |
|-----------------------|-----------------------|------------------------|
| 2018-001              | Procurement Documents | Corrected or Resolved. |