POHNPEI PORT AUTHORITY

(A COMPONENT UNIT OF THE STATE OF POHNPEI)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015 (AS RESTATED)

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

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Years Ended September 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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.

Emphasis of Matter

As described in note 2 to the financial statements, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*. As a result, the Authority has elected to restate its 2015 financial statements to reflect the adoption of this standard. Our opinion is not modified with respect to this matter.

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 29, 2017, 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 29, 2017

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

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, 2016. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- Operating revenues increased by $57,970 or 2% from last year.
- Operating expenses were $196,518 or 5.6% lower compared to fiscal year 2015.
- Current assets decreased by $273,413 or 11.6%.
- Liabilities increased by $21,725 or 7.2%.
- Net position decreased by $417,167.

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

The Statements 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 $273,413 or 11.6%. Investments increased by $92,219 or 5.31%. Capital assets decreased by $214,248 and there was no change in other assets. On the other hand, liabilities increased by $21,725. Overall, net position decreased by $417,167.

In 2016, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement requires a new measurement approach to recording the Authority's equity investment. The implementation had a material effect on the assets and on the Authority's net position resulting in the restatement of fiscal years 2015 and 2014 (see Note 2 to the financial statements). The following summarizes the Authority's financial condition for fiscal years 2014 to 2016:

	2016	2015 (As Restated)	FY16 vs. FY15 Increase (Decrease)		2014 (As Restated)
Assets:					
Current assets	$ 2,085,543	$ 2,358,956	$ (273,413)	-11.6%	$ 3,201,326
Advances to FSMNG	229,868	229,868	-	0.0%	229,868
Capital assets, net	6,496,102	6,710,350	(214,248)	3.2%	6,523,985
Investments	1,827,543	1,735,324	92,219	5.3%	1,804,953
Other assets	9,754	9,754	-	0.0%	9,754
Total assets	$ 10,648,810	$ 11,044,252	$ (395,554)	-3.6%	$ 11,769,886
Liabilities and net position:					
Current liabilities	$ 324,788	$ 303,063	$ 21,725	7.2%	$ 233,185
Total liabilities	324,788	303,063	21,725	7.2%	233,185
Net position					
Net investment in capital assets	6,496,102	6,710,350	(214,248)	-3.2%	6,523,985
Unrestricted	3,827,920	4,030,839	(202,919)	-5.0%	5,012,716
Total net position	10,324,022	10,741,189	(417,167)	-3.9%	11,536,701
Total liabilities and net position	$ 10,648,810	$ 11,044,252	$ (395,554)	-3.6%	$ 11,769,886

Changes in Net Position

Seaport revenues decreased by $166,755 or 9.9% compared to fiscal year 2015. Overall revenues increased by $57,970 or 2% while operating expenses went down by 5.6% from last year. The decrease of expenses by 5.6% did have great impact to the revenue increase of 2% including interest income resulting in a net loss of $417,167.

POHNPEI PORT AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

The Authority's changes in net position for fiscal years 2014 to 2016 are as follows:

	2016	2015 (As Restated)	FY16 vs. FY15 Increase (Decrease)		2014 (As Restated)
Operating revenues:					
Seaport charges	$ 1,519,505	$ 1,686,260	$ (166,755)		$ 2,296,131
Land leases and space rentals	565,884	506,449	59,435		475,283
Departure fees	391,820	373,620	18,200		382,805
Landing fees	96,683	82,437	14,246		84,113
Other	317,222	184,378	132,844		166,988
Total operating revenues	2,891,114	2,833,144	57,970	2.0%	3,405,320
(Bad debt) recoveries, net	(135,145)	(121,460)	(13,685)	11.3%	130,180
Net operating revenues	2,755,969	2,711,684	44,285	1.6%	3,535,500
Operating expenses:					
Salaries and benefits	1,626,845	1,569,049	57,796		1,424,279
Depreciation	614,017	592,411	21,606		504,845
Contractual services	227,215	216,341	10,874		319,497
Utilities	226,030	283,703	(57,673)		315,617
Supplies and materials	121,975	137,932	(15,957)		90,333
Training	120,766	100,740	20,026		277,499
Travel	109,740	229,288	(119,548)		205,542
Fuel	92,672	99,419	(6,747)		101,313
Repairs	66,566	101,965	(35,399)		98,529
Communication	37,143	35,570	1,573		41,221
Miscellaneous and others	63,654	136,723	(73,069)		126,058
Total operating expenses	3,306,623	3,503,141	(196,518)	-5.6%	3,504,733
(Loss) income from operations	(550,654)	(791,457)	(240,803)	-30.4%	30,767
Nonoperating revenues (expenses), net:					
Investment income (loss), net	133,487	(61,141)	194,628		231,116
Gain from sale of assets	-	3,145	(3,145)		-
Total nonoperating revenues (expenses), net	133,487	(57,996)	191,483		231,116
(Loss) income before capital contributions	(417,167)	(849,453)	(432,286)		261,883
Capital contributions	-	53,941	(53,941)		91,704
Change in net position	$ (417,167)	$ (795,512)	$ (378,345)	-47.6%	$ 353,587

Capital Assets

Capital assets decreased by $214,248 during FY 2016. Net investment in capital assets totaled $6,496,102 at September 30, 2016.

Additions for capital assets for FY 2016 include procurement and installation of concrete wall in airport terminal, departure lounge restrooms, water drainage system, runway backfilling project, galvanized warehouse, partitions in departure area, computers, air conditioners, outboard motors and engines.

Summary of capital assets as of September 30, 2016:

	Cost	Accumulated Depreciation	Net Book Value
Buildings and improvements	$ 17,155,633	$ (14,217,174)	$ 2,938,459
Machinery and equipment	3,212,926	(2,431,317)	781,609
Land	2,776,034	-	2,776,034
	$ 23,144,593	$ (16,648,491)	$ 6,496,102

For additional information concerning capital assets, please refer to note 5 to the financial statements.

Long-Term Debt

The Authority did not have any long-term debt or long-term liabilities existing at September 30, 2016, 2015 and 2014.

FY 2017 Economic Outlook

PPA will continue to see increase in cost utilities and fuel with the completion of the new Airport Arrival Terminal and Aircraft Rescue and Fire Fighters (ARFF) Building aside from added custodial workers, security, supplies and maintenance of the facilities.

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

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

With the soaring cost of operations and fewer fishing vessels calling on the port, the Authority 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 operations.

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in the Authority's report on the audit of financial statements, which is dated June 23, 2016. That Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at www.fsmopa.fm.

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, 2016 and 2015

ASSETS	2016	2015 (As Restated)
Current assets:		
Cash and cash equivalents	$ 1,696,182	$ 1,657,383
Accounts receivable, net	302,626	639,681
Advances	38,773	27,171
Prepaid expenses	47,962	34,721
Total current assets	2,085,543	2,358,956
Noncurrent assets:		
Investments	1,827,543	1,735,324
Advances to FSM National Government	229,868	229,868
Replacement parts, net	9,754	9,754
Depreciable property and equipment, net	3,720,068	3,482,876
Non-depreciable property and equipment	2,776,034	3,227,474
Total noncurrent assets	8,563,267	8,685,296
	$ 10,648,810	$ 11,044,252
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 25,828	$ 34,869
Accrued liabilities and others	109,165	93,230
Due to FSM National Government	78,186	78,186
Accrued annual leave	96,368	81,377
Unearned revenue	15,241	15,401
Total current liabilities	324,788	303,063
Commitments and contingency		
Net position:		
Net investment in capital assets	6,496,102	6,710,350
Unrestricted	3,827,920	4,030,839
Total net position	10,324,022	10,741,189
	$ 10,648,810	$ 11,044,252

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, 2016 and 2015

	2016	2015 (As Restated)
Operating revenues:		
Seaport charges	$ 1,519,505	$ 1,686,260
Land leases and space rentals	565,884	506,449
Departure fees	391,820	373,620
Landing fees	96,683	82,437
Other	317,222	184,378
Total operating revenues	2,891,114	2,833,144
Bad debt expense	(135,145)	(121,460)
Net operating revenues	2,755,969	2,711,684
Operating expenses:		
Salaries and benefits	1,626,845	1,569,049
Depreciation	614,017	592,411
Contractual services	227,215	216,341
Utilities	226,030	283,703
Supplies and materials	121,975	137,932
Training	120,766	100,740
Travel	109,740	229,288
Fuel	92,672	99,419
Repairs	66,566	101,965
Communication	37,143	35,570
Miscellaneous and others	63,654	136,723
Total operating expenses	3,306,623	3,503,141
Loss from operations	(550,654)	(791,457)
Nonoperating revenues (expenses), net:		
Investment income (loss), net	133,487	(61,141)
Gain from sale of assets	-	3,145
Total nonoperating revenues (expenses), net	133,487	(57,996)
Loss before capital contributions	(417,167)	(849,453)
Capital contributions	-	53,941
Change in net position	(417,167)	(795,512)
Net position at beginning of year	10,741,189	11,536,701
Net position at end of year	$ 10,324,022	$ 10,741,189

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, 2016 and 2015

	2016	2015 (As Restated)
Cash flows from operating activities:		
Cash received from customers	$ 3,081,262	$ 2,920,014
Cash paid to suppliers for goods and services	(1,072,108)	(1,296,828)
Cash paid to employees	(1,611,854)	(1,572,077)
Net cash provided by operating activities	397,300	51,109
Cash flows from capital and related financing activities:		
Proceeds from sale of property and equipment	-	3,145
Acquisition of property and equipment	(399,769)	(778,776)
Contributions for capital projects	-	53,941
Net cash used in capital and related financing activities	(399,769)	(721,690)
Cash flows from investing activities:		
Withdrawals from investments	31,728	-
Interest income	9,540	8,488
Net cash provided by investment activities	41,268	8,488
Net change in cash and cash equivalents	38,799	(662,093)
Cash and cash equivalents at beginning of year	1,657,383	2,319,476
Cash and cash equivalents at end of year	$ 1,696,182	$ 1,657,383
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	$ (550,654)	$ (791,457)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	614,017	592,411
Bad debt expense	135,145	121,460
(Increase) decrease in assets:		
Accounts receivable	201,910	92,894
Advances	(11,602)	(21,425)
Prepaid expenses	(13,241)	(12,652)
Increase (decrease) in liabilities:		
Accounts payable	(9,041)	33,832
Accrued liabilities and others	15,935	23,673
Accrued annual leave	14,991	(3,028)
Unearned revenue	(160)	15,401
Net cash provided by operating activities	$ 397,300	$ 51,109

See accompanying notes to financial statements.

(1) Reporting Entity

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

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

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

(2) Summary of Significant Accounting Policies

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:

(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, 2016 and 2015, the carrying amount of the Authority's total cash and cash equivalents was $1,696,182 and $1,657,383, respectively, and the corresponding bank balances were $1,813,010 and $1,766,328, respectively, which are primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016 and 2015, bank deposits in the amount of $531,728 and $500,000, respectively, 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.

(2) Summary of Significant Accounting Policies, Continued

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.

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. Refer to *New Accounting Standards* section below for the changes reflected in the accompanying financial statements.

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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2016, the Authority implemented the following pronouncements:

- GASB 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 implementation of this statement resulted in additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additionally, the implementation resulted in the re-measurement of equity investment from cost-basis to NAV, as cost-basis measurement is no longer an allowable measureable method for equity investment. Such implementation had a material effect on the accompanying financial statements resulting in the restatement of the Authority's 2015 financial statements to reflect the required adjustments as follows:

	As Previously Reported	Adjustment	As Restated
As of September 30, 2014:			
Net position	$ 11,434,910	$ 101,791	$ 11,536,701
For the year ended September 30, 2015:			
Investment income (loss)	$ (72,590)	$ 11,449	$ (61,141)
Change in net position	$ (806,961)	$ 11,449	$ (795,512)
As of September 30, 2015:			
Investment	$ 1,622,084	$ 113,240	$ 1,735,324
Total assets	$ 10,931,012	$ 113,240	$ 11,044,252
Net position	$ 10,627,949	$ 113,240	$ 10,741,189

- GASB 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 No. 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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 d has not evaluated the impact that the implementation of this statement will have on the financial statements.

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.

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.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14,* which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73,* which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Investments

A schedule of investments at fair value, as of September 30, 2016 and 2015, is as follows:

	2016	2015
Fixed income securities:		
Domestic fixed income	$ 583,476	$ 585,052
Other:		
Domestic equities	617,529	635,932
International equities	398,702	301,100
	1,016,231	937,032
	$ 1,599,707	$ 1,522,084

Additionally, investments as of September 30, 2016 include equity investment in Bank of the FSM represents 10,000 common shares and approximately 1% ownership interest. The total shareholders' equity reported by Bank of the FSM approximated $21,293,000 and $19,929,000 at December 31, 2016 and 2015, respectively. The investment in Bank of the FSM is stated at NAV. At September 30, 2016 and 2015, equity investment in Bank of the FSM amounted to $227,836 and $213,240, respectively.

(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:

		2016	2015
U.S. Treasury obligations	AAAA/AAA	$ 362,454	$ 238,431
Mortgage and asset-backed	AAA/AA+	-	145,769
Corporate notes and bonds	A1/AA+	18,445	19,877
Corporate notes and bonds	A2/A+	-	17,559
Corporate notes and bonds	A2/A	17,665	17,275
Corporate notes and bonds	A3/A	18,076	-
Corporate notes and bonds	A3/A-	36,178	34,220
Corporate notes and bonds	A3/BBB+	36,614	17,310
Corporate notes and bonds	BA3/BB+	21,120	-
Corporate notes and bonds	BAA1/BBB+	36,782	-
Corporate notes and bonds	BAA2/BBB+	-	35,223
Corporate notes and bonds	BAA2/BBB	18,111	-
Corporate notes and bonds	BAA3/BBB-	-	16,726
Corporate notes and bonds	BAA3/BBB	18,031	-
Corporate notes and bonds	BAA3/BBB-	-	42,662
		$ 583,476	$ 585,052

As of September 30, 2016, the Authority's fixed income securities had the following maturities:

Investment type:	1 to 5 Years	5 to 10 Years	Fair Value
U.S. Treasury obligations	$ 320,746	$ 41,708	$ 362,454
Corporate notes and bonds	53,129	167,893	221,022
	$ 373,875	$ 209,601	$ 583,476

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

Investment type:	1 to 5 Years	5 to 10 Years	Fair Value
U.S. Treasury obligations	$ 188,832	$ 49,599	$ 238,431
Mortgage and asset-backed securities	145,769	-	145,769
Corporate notes and bonds	64,789	136,063	200,852
	$ 399,390	$ 185,662	$ 585,052

(3) Investments, Continued

The Authority categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority has the following recurring fair value measurements as of September 30, 2016 and 2015:

September 30, 2016		Fair Value Measurements Using Level 1	Level 2	Level 3
Fixed income securities:				
U.S. Treasury obligations	$ 362,454	$ -	$ 362,454	$ -
Corporate notes and bonds	221,022	-	221,022	-
Total fixed income	583,476	-	583,476	-
Equity securities:				
U.S. equities	617,529	617,529	-	-
International equities	398,702	398,702	-	-
Total investments at fair value	$ 1,599,707	$ 1,016,231	$ 583,476	$ -

September 30, 2015		Fair Value Measurements Using Level 1	Level 2	Level 3
Fixed income securities:				
U.S. Treasury obligations	$ 238,431	$ -	$ 238,431	$ -
Mortgage and asset-backed securities	145,769	-	145,769	-
Corporate notes and bonds	200,852	-	200,852	-
Total fixed income	585,052	-	585,052	-
Equity securities:				
U.S. equities	635,932	635,932	-	-
International equities	301,100	301,100	-	-
Total investments at fair value	$ 1,522,084	$ 937,032	$ 585,052	$ -

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the Authority's name by the Authority's custodial financial institutions at September 30, 2016 and 2015.

(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, 2016 and 2015, 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 accounts, at September 30, 2016 and 2015, is as follows:

	2016	2015
Accounts receivable	$ 2,041,312	$ 2,243,222
Less allowance for doubtful accounts	(1,738,686)	(1,603,541)
	$ 302,626	$ 639,681

(5) Property and Equipment

Capital asset activity for the years ended September 30, 2016 and 2015, was as follows:

	Estimated Useful Lives	Balance at October 1 2015	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2016
Non-depreciable:					
Land		$ 2,776,034	$ -	$ -	$ 2,776,034
Construction in progress		451,440	326,057	(777,497)	-
		3,227,474	326,057	(777,497)	2,776,034
Depreciable:					
Buildings and improvements	7 - 70 years	16,378,136	777,497	-	17,155,633
Machinery and equipment	3 - 5 years	3,139,214	73,712	-	3,212,926
		19,517,350	851,209	-	20,368,559
Less accumulated depreciation		(16,034,474)	(614,017)	-	(16,648,491)
		3,482,876	237,192	-	3,720,068
Property and equipment, net		$ 6,710,350	$ 563,249	$ (777,497)	$ 6,496,102

(5) Property and Equipment, Continued

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

(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 a party to operating lease agreements for land and concession stands that expire in various dates 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:

Year ending September 30,	Total
2017	$ 537,000
2018	440,000
2019	309,000
2020	201,000
2021	168,000
2022 - 2023	175,000
	$ 1,830,000

(9) 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, 2016 and 2015 were $38,243 and $32,759, respectively. Management is of the opinion that the Plan does not represent an asset or liability of the Authority. As of September 30, 2016 and 2015, plan assets were $636,065 and $581,699, respectively.

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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, 2016, 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 29, 2017.

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. We did identify certain deficiencies in internal control, described in accompanying Schedule of Findings and Responses as item 2016-002 that we consider to be a significant deficiency.

Deloitte.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Finding and Responses as item 2016-001.

The Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 29, 2017

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

Summary Schedule of Prior Year Findings
Year Ended September 30, 2016

Finding No.: 2016-001

Procurement Documents

Criteria: Procurement transactions shall provide for full and open competition that is best suited to the circumstances.

Condition: Procurement documents evidencing full and open competition or vendor selection were not provided for the following items:

#	Description	Document#	Amount	Date
1	fuel pump 12v po9852	11321	$ 420	01/12/2016
2	Outboard motor E60HWDL	11577	5,329	04/05/2016
3	Yamada boat FRP/W 25DW po10564	12167	28,599	09/30/2016
			$ 34,348	

Cause: The cause of the above condition is the lack of established procurement policies and regulations.

Effect: The effect of the above condition is potential noncompliance with competitive procurement.

Recommendation: We recommend that the Authority complete a procurement manual entailing standard procedures to maximize full and open competition.

Auditee Response and Corrective Action Plan: As recommended, PPA will complete a procurement manual for standard procedure to maximize full and open competition where as any purchase of $500 or more will require at least 3 vendors to choose from. This practice will become effective immediately while the procurement manual is being prepared.

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

Summary Schedule of Prior Year Findings
Year Ended September 30, 2016

Finding No. 2016-002

Travel Advances

Criteria: Appropriate action should be established requiring proper liquidation of travel advances. Also, written internal control policies and procedures governing maximum amount of advances should be adopted.

Condition: The following exceptions concerning travel advances were noted:

1. As of September 30, 2016, there is an unrecorded amount of $67,957 due from employees arising from prior year unliquidated travel advances. This amount remains uncollected as of year-end and expensed in prior years.

2. No written internal control policies and procedures governing maximum amount of advances is adopted.

Cause: The cause of the above condition is the lack of established appropriate action requiring proper liquidation of travel advances. Also, there is no adopted written internal control policies and procedures governing maximum amount of advances.

Effect: The effect of the above condition is possible misstatement of travel expense. Further, amount of due from employees that remains uncollected increases.

Recommendation: We recommend that Authority implement appropriate action requiring proper liquidation of travel advances. Also, we recommend management to adopt written internal control policies and procedures governing maximum amount of advances.

Auditee Response and Corrective Action Plan: There is already a policy on travel advances; however, it is not being followed. Management should change the policy of travel advance from 100% back to 80% to ensure that every traveler will file their travel vouchers upon their return knowing they will get the 20% upon filing.