

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

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Kosrae Port Authority:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Kosrae Port Authority (the Authority), a component unit of the State of Kosrae, which comprise the statements of net position as of September 30, 2017 and 2016, 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 the Kosrae Port Authority as of September 30, 2017 and 2016, 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.

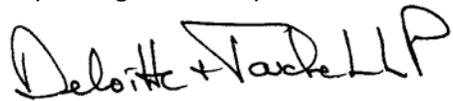
## Other Matters

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017, on our consideration of the Kosrae Port Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kosrae Port Authority's internal control over financial reporting and compliance.



November 20, 2017

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

Management's Discussion and Analysis  
Years Ended September 30, 2017 and 2016

This analysis prepared by Kosrae Port Authority (Authority) offers readers of the Authority's financial statements a narrative overview of its activities for fiscal year ended September 30, 2017. This analysis is required by the Governmental Accounting Standards Board (GASB), which provides guidelines on what must be included and excluded from the analysis.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position provide an indication of the Authority's financial condition. The Authority's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in the Authority's financial condition.

The following summarizes the financial position and results of operations of Kosrae Port Authority for the fiscal years 2017, 2016 and 2015.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statements of Net Position:			
Assets:			
Current assets	\$ 21,047	\$ 103,607	\$ 106,441
Property and equipment, net	<u>15,934,657</u>	<u>16,676,397</u>	<u>17,458,399</u>
Total assets	\$ <u>15,955,704</u>	\$ <u>16,780,004</u>	\$ <u>17,564,840</u>
Liabilities and net position:			
Current liabilities	\$ <u>130,373</u>	\$ <u>113,163</u>	\$ <u>121,926</u>
Net position:			
Net investment in capital assets	15,934,657	16,676,397	17,458,399
Unrestricted	<u>(109,326)</u>	<u>(9,556)</u>	<u>(15,485)</u>
Total net position	<u>15,825,331</u>	<u>16,666,841</u>	<u>17,442,914</u>
Total liabilities and net position	\$ <u>15,955,704</u>	\$ <u>16,780,004</u>	\$ <u>17,564,840</u>
Statements of Revenues, Expenses and Changes in Net Position:			
Operating revenues	\$ 376,513	\$ 435,106	\$ 337,609
Operating expenses	<u>1,218,023</u>	<u>1,211,179</u>	<u>1,116,070</u>
Loss from operations	<u>(841,510)</u>	<u>(776,073)</u>	<u>(778,461)</u>
Subsidies from FSMNG	-	-	<u>32,786</u>
Total non-operating income	-	-	<u>32,786</u>
Change in net position	(841,510)	(776,073)	(745,675)
Net position at beginning of year	<u>16,666,841</u>	<u>17,442,914</u>	<u>18,188,589</u>
Net position at the end of year	\$ <u>15,825,331</u>	\$ <u>16,666,841</u>	\$ <u>17,442,914</u>

**KOSRAE PORT AUTHORITY  
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Management's Discussion and Analysis, Continued  
Years Ended September 30, 2017 and 2016

**Financial Highlights**

The Authority's total assets as of September 30, 2017 are comprised of the net amount of its accounts receivable and property and equipment, net of accumulated depreciation. The property and equipment were transferred from the Kosrae State Government in July 2008. In fiscal year 2013, the Authority received an additional capital contribution of \$3,322,632 from Kosrae State Government for various airport improvement projects which were jointly funded by the U.S. Federal Aviation Administration and the FSM National Government. For additional information with respect to capital assets, please see Note 4 to the financial statements.

Current liabilities comprise accounts payable, accrued liabilities and others, and the due to primary government of \$72,174. There has not been any formal discussion or negotiation on how to settle this debt. The Authority would like to eventually settle for a write-off based on a verbal agreement during the Transfer Negotiation made in July 2008 with the previous Administration.

Operating revenues are mainly from airport landing fees, sea port charges and departure fees. Fiscal year 2017 revenues registered a decrease of 11% compared to fiscal year 2016.

Depreciation expense comprised 61% of total operating expenses while salaries and benefits registered 21%. Other expenses such as travel, utilities, supplies and materials, fuel and others totaling \$220,589 comprised 18% of the total operating expenses. There are no significant changes from amounts recorded in 2016.

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in the Authority's report on the audit of financial statements, which is dated December 27, 2016. That Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

**Economic factors and Next Year's Budget**

The Kosrae Port Authority continuously experiences economic and financial challenges as it relies heavily on revenues realized from both airport and seaport operations. Airport revenues were affected because of the reduction in the flight schedule of the carriers flying into Kosrae State. The expenditures, on the other hand, are expected to increase, particularly utilities due to the usage of donated facilities.

Management realizes the problem and has looked to the Port tariff restructuring as means of increasing revenues. In addition, leases will be reviewed as to reasonableness for possible increases as well.

**Contacting the Authority's Financial Management**

This financial report is designed to provide our customers, creditors, and other interested parties a general overview of Kosrae Port Authority's finances. If you have questions about this report or need additional financial information, contact the Office of the General Manager at P. O. Box 960, Tofol, Kosrae FM 96944.

**KOSRAE PORT AUTHORITY**  
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Statements of Net Position  
September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ -	\$ 54,264
Accounts receivable, net	<u>21,047</u>	<u>49,343</u>
Total current assets	21,047	103,607
Property and equipment, net	<u>15,934,657</u>	<u>16,676,397</u>
	<u>\$ 15,955,704</u>	<u>\$ 16,780,004</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 47,178	\$ 24,417
Accrued liabilities and others	11,021	16,572
Due to primary government	<u>72,174</u>	<u>72,174</u>
Total liabilities	<u>130,373</u>	<u>113,163</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	15,934,657	16,676,397
Unrestricted	<u>(109,326)</u>	<u>(9,556)</u>
Total net position	<u>15,825,331</u>	<u>16,666,841</u>
	<u>\$ 15,955,704</u>	<u>\$ 16,780,004</u>

See accompanying notes to financial statements.

**KOSRAE PORT AUTHORITY**  
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Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Charges for services	\$ 385,987	\$ 435,106
Bad debts	(9,474)	-
Total operating revenues	376,513	435,106
Operating expenses:		
Depreciation	741,740	799,184
Salaries and benefits	255,694	180,831
Travel	75,638	81,101
Utilities	55,578	55,393
Supplies and materials	32,346	31,733
Fuel	18,179	18,543
Contractual services	18,000	11,000
Communication	5,234	3,605
Representation and entertainment	4,441	2,877
Repairs	2,451	11,036
Freight and handling	1,220	1,415
Bank service charges	1,092	988
Miscellaneous and others	6,410	13,473
Total operating expenses	1,218,023	1,211,179
Loss from operations	(841,510)	(776,073)
Net position at beginning of year	16,666,841	17,442,914
Net position at end of year	\$ 15,825,331	\$ 16,666,841

See accompanying notes to financial statements.

**KOSRAE PORT AUTHORITY**  
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Statements of Cash Flows  
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 404,809	\$ 442,080
Cash paid to suppliers for goods and services	(197,828)	(231,164)
Cash paid to employees	(261,245)	(189,594)
Net cash (used in) provided by operating activities	(54,264)	21,322
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	-	(17,182)
Net cash used in capital and related financing activities	-	(17,182)
Net change in cash	(54,264)	4,140
Cash at beginning of year	54,264	50,124
Cash at end of year	\$ -	\$ 54,264
Reconciliation of loss from operations to net cash (used in) provided by operating activities:		
Loss from operations	\$ (841,510)	\$ (776,073)
Adjustments to reconcile loss from operations to net cash (used in) provided by operating activities:		
Depreciation	741,740	799,184
Bad debts	9,474	-
Decrease in assets:		
Accounts receivable	18,822	6,974
Increase (decrease) in liabilities:		
Accounts payable	22,761	-
Accrued liabilities and others	(5,551)	(8,763)
Net cash (used in) provided by operating activities	\$ (54,264)	\$ 21,322

See accompanying notes to financial statements.

**KOSRAE PORT AUTHORITY**  
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Notes to Financial Statements  
September 30, 2017 and 2016

(1) Reporting Entity

The Kosrae Port Authority (the Authority), a component unit of the Kosrae State Government, was established by Kosrae State Public Law 7-91. The primary purpose of the Authority is to oversee the use and maintenance of Kosrae State's sea and air ports. The Authority began operating as a separate entity in fiscal year 2008, although the accounting for the Authority was not transferred from the Kosrae State Department of Administration and Finance until July 1, 2008.

The Authority is governed by a five-member Board of Directors. The Board is composed of four directors appointed by the Governor with the advice and consent of the Legislature, and, ex-officio, the Director of the Department of Transportation and Infrastructure. An appointed director serves for a term of four years, subject to reappointment, and until his successor has been appointed and qualifies.

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

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

The Authority's equity is presented in the following net position categories:

- 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.

**KOSRAE PORT AUTHORITY**  
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Notes to Financial Statements  
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Authority's revenues are derived primarily from providing various services to major shipping and airline customers under an approved tariff rate schedule and are reported as operating revenues. Capital, grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. All expenses related to operating the Authority are reported as operating expenses. Interest income or federal program revenues are the primary components of non-operating expenses and revenues.

Cash

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, 2017 and 2016, the cash balance was \$0 and \$54,264, respectively, and the corresponding bank balances were \$6,180 and \$58,559, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits were fully FDIC insured.

Receivables

The Authority's accounts receivable are mostly with businesses and individuals that relate to space rentals, landing fees, port and handling charges, and other fees. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

**KOSRAE PORT AUTHORITY**  
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Notes to Financial Statements  
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

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. The Authority utilizes a capitalization threshold of \$100,000, which was set by Kosrae State Government upon transfer of these assets to the Authority.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

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.

New Accounting Standards

During fiscal year 2017, the Authority implemented the following pronouncements:

- GASB 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.
- GASB 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).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB 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*.
- GASB 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.

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Notes to Financial Statements  
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB 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 implementation of these statements did not have a material effect on the accompanying 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 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 November 2016, GASB issued 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. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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 March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**KOSRAE PORT AUTHORITY  
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Notes to Financial Statements  
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

(3) Accounts Receivable

The detail of accounts receivable, net of the allowance for uncollectible accounts, at September 30, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 104,807	\$ 123,629
Less allowance for uncollectible accounts	<u>(83,760)</u>	<u>(74,286)</u>
	\$ <u>21,047</u>	\$ <u>49,343</u>

(4) Property and Equipment

Capital asset activity for the years ended September 30, 2017 and 2016, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2016</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2017</u>
Depreciable:					
Buildings and improvements	10 to 50 years	\$ 11,941,369	\$ -	\$ -	\$ 11,941,369
Machinery and equipment	5 years	924,968	-	-	924,968
Infrastructure	7 to 80 years	37,972,012	-	-	37,972,012
Vehicles	3 years	<u>17,182</u>	<u>-</u>	<u>-</u>	<u>17,182</u>
		50,855,531	-	-	50,855,531
Less accumulated depreciation		<u>(34,179,134)</u>	<u>(741,740)</u>	<u>-</u>	<u>(34,920,874)</u>
Property and equipment, net		\$ <u>16,676,397</u>	\$ <u>(741,740)</u>	\$ <u>-</u>	\$ <u>15,934,657</u>
	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2015</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2016</u>
Depreciable:					
Buildings and improvements	10 to 50 years	\$ 11,941,369	\$ -	\$ -	\$ 11,941,369
Machinery and equipment	5 years	924,968	-	-	924,968
Infrastructure	7 to 80 years	37,972,012	-	-	37,972,012
Vehicles	3 years	<u>-</u>	<u>17,182</u>	<u>-</u>	<u>17,182</u>
		50,838,349	17,182	-	50,855,531
Less accumulated depreciation		<u>(33,379,950)</u>	<u>(799,184)</u>	<u>-</u>	<u>(34,179,134)</u>
Property and equipment, net		\$ <u>17,458,399</u>	\$ <u>(782,002)</u>	\$ <u>-</u>	\$ <u>16,676,397</u>

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Notes to Financial Statements  
September 30, 2017 and 2016

(5) Risk Management

The Authority purchases insurance to cover life insurance risks. However, the Authority does not purchase insurance to cover risks associated with its buildings and other fixed assets. Management is of the opinion that no material losses have been sustained as a result of this practice since the inception of its operations in July 2008.

(6) Space Rental Agreement

The approximate future minimum annual revenue for space rental agreements is \$23,357 for the year ending September 30, 2018.

**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  
Kosrae Port Authority:

We have audited, 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, the financial statements of the Kosrae Port Authority (the Authority), which comprise the statement of net position as September 30, 2017, 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 November 20, 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.

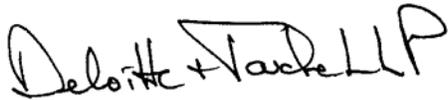
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

## Compliance and Other Matters

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

## Purpose of this Report

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

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

November 20, 2017