

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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

Table of Contents
Years Ended September 30, 2017 and 2016

	<u>Page No.</u>
I. FINANCIAL STATEMENTS	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
II. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	20
Schedule of Findings and Responses	22

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, 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 Pohnpei 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 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 April 17, 2018, 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

April 17, 2018

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

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

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 ended September 30, 2017. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- Operating revenues increased by \$1,329,837 or 46.0% from last year.
- Operating expenses were \$17,253 or 0.5% higher compared to fiscal year 2016.
- Current assets increased by \$2,634,669 or 126.3%.
- Liabilities increased by \$16,624 or 5.1%.
- Net position increased by \$1,024,547 or 9.9%.

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 financial 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 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 increased by \$2,634,669 or 126.3%. Investments decreased by \$1,592,753 or 87.2%. Capital assets increased by \$9,009 and other assets decreased by \$9,754. On the other hand, liabilities increased by \$16,624. Overall, net position increased by \$1,024,547.

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

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

The following summarizes the Authority's financial condition for fiscal years 2015 to 2017:

	<u>2017</u>	<u>2016</u>	FY 17 vs FY 16		<u>2015</u>
			Increase (Decrease)		
Assets:					
Current assets	\$ 4,720,212	\$ 2,085,543	\$2,634,669	126.3%	\$ 2,358,956
Advances to FSMNG	229,868	229,868	-	0.0%	229,868
Capital assets, net	6,505,111	6,496,102	9,009	0.1%	6,710,350
Investments	234,790	1,827,543	(1,592,753)	-87.2%	1,735,324
Other assets	<u>-</u>	<u>9,754</u>	<u>(9,754)</u>	<u>-100%</u>	<u>9,754</u>
Total assets	<u>11,689,981</u>	<u>10,648,810</u>	<u>1,041,171</u>	<u>9.8%</u>	<u>11,044,252</u>
Liabilities and net position:					
Current liabilities	<u>341,412</u>	<u>324,788</u>	<u>16,624</u>	<u>5.1%</u>	<u>303,063</u>
Total liabilities	<u>341,412</u>	<u>324,788</u>	<u>16,624</u>	<u>5.1%</u>	<u>303,063</u>
Net position:					
Net investment in capital assets	6,505,111	6,496,102	9,009	0.1%	6,710,350
Unrestricted	<u>4,843,458</u>	<u>3,827,920</u>	<u>1,015,538</u>	<u>26.5%</u>	<u>4,030,839</u>
Total net position	<u>11,348,569</u>	<u>10,324,022</u>	<u>1,024,547</u>	<u>9.9%</u>	<u>10,741,189</u>
Total liabilities and net position	<u>\$ 11,689,981</u>	<u>\$ 10,648,810</u>	<u>\$ 1,041,171</u>	<u>9.8%</u>	<u>\$ 11,044,252</u>

The Authority's net position from fiscal years 2014 to 2017 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 4,720,212	\$ 2,085,543	\$ 2,358,956	\$ 3,201,326
Capital assets, net	6,505,111	6,496,102	6,710,350	6,523,985
Other assets	229,868	239,622	239,622	239,622
Investments	234,790	1,827,543	1,735,324	1,804,953
Current liabilities	<u>(341,412)</u>	<u>(324,788)</u>	<u>(303,063)</u>	<u>(233,185)</u>
Net position	<u>\$ 11,348,569</u>	<u>\$ 10,324,022</u>	<u>\$ 10,741,189</u>	<u>\$ 11,536,701</u>

Changes in Net Position

Seaport revenues increased by \$1,101,606 or 72.5% compared to fiscal year 2016. Overall revenues increased by \$1,329,837 or 46.0% while operating expenses increased by \$17,253 or 0.5% from last year. The increase of expenses by 0.5% did not have great impact to the revenue increase of 56.5% resulting in net earnings of \$1,024,547.

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

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

The Authority's changes in net position for fiscal years 2015 to 2017 are as follows:

	<u>2017</u>	<u>2016</u>	<u>FY 2017 vs FY 2016</u> <u>Increase (Decrease)</u>	<u>2015</u>
Operating revenues:				
Seaport charges	\$ 2,621,111	\$ 1,519,505	\$ 1,101,606	\$ 1,686,260
Land leases and space rentals	614,001	565,884	48,117	506,449
Departure fees	450,105	391,820	58,285	373,620
Landing fees	101,746	96,683	5,063	82,437
Other	<u>433,988</u>	<u>317,222</u>	<u>116,766</u>	<u>184,378</u>
Total operating revenues	4,220,951	2,891,114	1,329,837	2,833,144
Bad debt recoveries (expense)	<u>93,081</u>	<u>(135,145)</u>	<u>228,226</u>	168.9% <u>(121,460)</u>
Net operating revenues	<u>4,314,032</u>	<u>2,755,969</u>	<u>1,558,063</u>	56.5% <u>2,711,684</u>
Operating expenses:				
Salaries and benefits	1,582,159	1,626,845	(44,686)	1,569,049
Depreciation	506,806	614,017	(107,211)	592,411
Contractual services	413,249	227,215	186,034	216,341
Utilities	234,116	226,030	8,086	283,703
Supplies and materials	112,055	121,975	(9,920)	137,932
Repairs	106,812	66,566	40,246	101,965
Travel	94,985	109,740	(14,755)	229,288
Training	92,238	120,766	(28,528)	100,740
Fuel	62,789	92,672	(29,883)	99,419
Communication	33,656	37,143	(3,487)	35,570
Miscellaneous and others	<u>85,011</u>	<u>63,654</u>	<u>21,357</u>	<u>136,723</u>
Total operating expenses	<u>3,323,876</u>	<u>3,306,623</u>	<u>17,253</u>	0.5% <u>3,503,141</u>
Income (loss) from operations	<u>990,156</u>	<u>(550,654)</u>	<u>1,540,810</u>	279.8% <u>(791,457)</u>
Non-operating revenues (expenses), net:				
Investment income (loss), net	29,450	133,487	(104,037)	(61,141)
Gain from sale of assets	<u>4,941</u>	<u>-</u>	<u>4,941</u>	<u>3,145</u>
Total non-operating revenues (expenses), net	<u>34,391</u>	<u>133,487</u>	<u>(99,096)</u>	<u>(57,996)</u>
Income (loss) before capital contributions	<u>1,024,547</u>	<u>(417,167)</u>	<u>1,441,714</u>	<u>(849,453)</u>
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,941</u>
Change in net position	<u>\$ 1,024,547</u>	<u>\$ (417,167)</u>	<u>\$ 1,441,714</u>	345.6% <u>\$ (795,512)</u>

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

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

Capital Assets

Capital assets increased by \$9,009 during FY 2017. Net investment in capital assets totaled \$6,505,111 at September 30, 2017.

Additions for capital assets for FY 2017 include painting of arrival roof, access way concrete, airport facility pavement, installation of seaport perimeter fence, terminal skylight roof change, equipment shelter, installation of departure rain gutters and installation of departure information booth.

Summary of capital assets as of September 30, 2017:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Buildings and improvements	\$ 17,386,353	\$ (14,097,094)	\$ 3,289,259
Machinery and equipment	3,353,604	(3,053,262)	300,342
Land	2,776,034	-	2,776,034
Construction in Progress	<u>139,476</u>	<u>-</u>	<u>139,476</u>
Total	\$ <u>23,655,467</u>	\$ <u>(17,150,356)</u>	\$ <u>6,505,111</u>

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

Long-Term Debt

The Authority did not have any long-term debt or long-term liabilities existing at September 30, 2017, 2016 and 2015.

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 June 29, 2017. That Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at www.fsmopa.fm.

FY 2018 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 operation and fewer fishing vessels calling on the port, PPA is challenged to use its limited resources prudently in order to secure vital equipment, upgrade infrastructure, subsidize the Airport operation and maintain positive trends in results of operation.

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

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

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 the 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, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 4,274,620	\$ 1,696,182
Accounts receivable, net	393,584	302,626
Advances	26,697	38,773
Prepaid expenses	25,311	47,962
Total current assets	<u>4,720,212</u>	<u>2,085,543</u>
Noncurrent assets:		
Investments	234,790	1,827,543
Advances to FSM National Government	229,868	229,868
Replacement parts, net	-	9,754
Depreciable property and equipment, net	3,589,601	3,720,068
Non-depreciable property and equipment	2,915,510	2,776,034
Total noncurrent assets	<u>6,969,769</u>	<u>8,563,267</u>
	<u>\$ 11,689,981</u>	<u>\$ 10,648,810</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Accounts payable	\$ 16,552	\$ 25,828
Accrued liabilities and others	141,005	109,165
Due to FSM National Government	77,782	78,186
Due to Pohnpei State Government	20,553	-
Accrued annual leave	85,520	96,368
Unearned revenue	-	15,241
Total current liabilities	<u>341,412</u>	<u>324,788</u>
Commitments and contingency		
Net position:		
Net investment in capital assets	6,505,111	6,496,102
Unrestricted	4,843,458	3,827,920
Total net position	<u>11,348,569</u>	<u>10,324,022</u>
	<u>\$ 11,689,981</u>	<u>\$ 10,648,810</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Seaport charges	\$ 2,621,111	\$ 1,519,505
Land leases and space rentals	614,001	565,884
Departure fees	450,105	391,820
Landing fees	101,746	96,683
Other	<u>433,988</u>	<u>317,222</u>
Total operating revenues	4,220,951	2,891,114
Bad debt recovery (expense)	<u>93,081</u>	<u>(135,145)</u>
Net operating revenues	<u>4,314,032</u>	<u>2,755,969</u>
Operating expenses:		
Salaries and benefits	1,582,159	1,626,845
Depreciation	506,806	614,017
Contractual services	413,249	227,215
Utilities	234,116	226,030
Supplies and materials	112,055	121,975
Repairs	106,812	66,566
Travel	94,985	109,740
Training	92,238	120,766
Fuel	62,789	92,672
Communication	33,656	37,143
Miscellaneous and others	<u>85,011</u>	<u>63,654</u>
Total operating expenses	<u>3,323,876</u>	<u>3,306,623</u>
Income (loss) from operations	<u>990,156</u>	<u>(550,654)</u>
Nonoperating revenues, net:		
Investment income, net	29,450	133,487
Gain from sale of assets	<u>4,941</u>	<u>-</u>
Total nonoperating revenues, net	<u>34,391</u>	<u>133,487</u>
Change in net position	1,024,547	(417,167)
Net position at beginning of year	<u>10,324,022</u>	<u>10,741,189</u>
Net position at end of year	<u>\$ 11,348,569</u>	<u>\$ 10,324,022</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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 4,456,910	\$ 3,081,262
Cash paid to suppliers for goods and services	(1,396,794)	(1,072,108)
Cash paid to employees	(1,593,007)	(1,611,854)
Net cash provided by operating activities	1,467,109	397,300
Cash flows from capital and related financing activities:		
Proceeds from sale of property and equipment	4,941	-
Acquisition of property and equipment	(515,815)	(399,769)
Net cash used in capital and related financing activities	(510,874)	(399,769)
Cash flows from investing activities:		
Withdrawals from investments	1,599,448	31,728
Interest income	22,755	9,540
Net cash provided by investment activities	1,622,203	41,268
Net change in cash and cash equivalents	2,578,438	38,799
Cash and cash equivalents at beginning of year	1,696,182	1,657,383
Cash and cash equivalents at end of year	\$ 4,274,620	\$ 1,696,182
Reconciliation of income (loss) from operations to net cash provided by operating activities:		
Income (loss) from operations	\$ 990,156	\$ (550,654)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation	506,806	614,017
Write-off of spare parts	9,754	-
Bad debt (recovery) expense	(93,081)	135,145
(Increase) decrease in assets:		
Accounts receivable	2,123	201,910
Advances	12,076	(11,602)
Prepaid expenses	22,651	(13,241)
Increase (decrease) in liabilities:		
Accounts payable	(9,276)	(9,041)
Accrued liabilities and others	31,840	15,935
Due to FSM National Government	(404)	-
Due to Pohnpei State Government	20,553	-
Accrued annual leave	(10,848)	14,991
Unearned revenue	(15,241)	(160)
Net cash provided by operating activities	\$ 1,467,109	\$ 397,300

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2017 and 2016

(1) Reporting Entity

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

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

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

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

Estimates

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

Net Position

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

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

Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017 and 2016, the carrying amount of the Authority's total cash and cash equivalents was \$4,274,620 and \$1,696,182, respectively, and the corresponding bank balances were \$4,432,623 and \$1,813,010, respectively, which are primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits in the amount of \$500,000 and \$531,728, 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.

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

Notes to Financial Statements
September 30, 2017 and 2016

(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. During the year ended September 30, 2017, spare parts were written off and recorded as repair expense in the accompanying financial statements.

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.

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

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2017, the Authority implemented the following pronouncements, which had no material effect to the accompanying financial statements:

- 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.
- 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.

In June 2015, GASB issued Statements 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.

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

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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) Investments

A schedule of investments as of September 30, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Recorded at NAV:		
Common stock in Bank of the FSM (BFSM)	\$ <u>234,790</u>	\$ <u>227,836</u>
Recorded at fair value:		
Fixed income securities:		
Domestic fixed income	\$ _____ -	\$ <u>583,476</u>
Other:		
Domestic equities	-	617,529
International equities	_____ -	<u>398,702</u>
	_____ -	<u>1,016,231</u>
	\$ <u>_____ -</u>	\$ <u>1,599,707</u>

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

Notes to Financial Statements
September 30, 2017 and 2016

(3) Investments, Continued

At September 30, 2017 and 2016, investment in BFSM represents 10,000 common shares and approximately 1% ownership interest. The total shareholders' equity reported by BFSM approximated \$21,943,000 and \$21,293,000 at September 30, 2017 and 2016, respectively.

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.

As of September 30, 2016, investments for fixed income securities, are as follows:

U.S. Treasury obligations	AAAA/AAA	\$ 362,454
Corporate notes and bonds	A1/AA+	18,445
Corporate notes and bonds	A2/A	17,665
Corporate notes and bonds	A3/A	18,076
Corporate notes and bonds	A3/A-	36,178
Corporate notes and bonds	A3/BBB+	36,614
Corporate notes and bonds	BA3/BB+	21,120
Corporate notes and bonds	BAA1/BBB+	36,782
Corporate notes and bonds	BAA2/BBB	18,111
Corporate notes and bonds	BAA3/BBB	<u>18,031</u>
		<u>\$ 583,476</u>

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	<u>53,129</u>	<u>167,893</u>	<u>221,022</u>
	<u>\$ 373,875</u>	<u>\$ 209,601</u>	<u>\$ 583,476</u>

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:

	Fair Value Measurements Using			
	September 30, 2016	Level 1	Level 2	Level 3
Fixed income securities:				
U.S. Treasury obligations	\$ 362,454	\$ -	\$ 362,454	\$ -
Corporate notes and bonds	<u>221,022</u>	<u>-</u>	<u>221,022</u>	<u>-</u>
Total fixed income	<u>583,476</u>	<u>-</u>	<u>583,476</u>	<u>-</u>

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

Notes to Financial Statements
September 30, 2017 and 2016

(3) Investments, Continued

	September 30, <u>2016</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities:				
U.S. equities	617,529	617,529	-	-
International equities	<u>398,702</u>	<u>398,702</u>	<u>-</u>	<u>-</u>
Total investments at fair value	\$ <u>1,599,707</u>	\$ <u>1,016,231</u>	\$ <u>583,476</u>	\$ <u>-</u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the Authority's name by the Authority's custodial financial institutions at September 30, 2016. During the year ended September 30, 2017, these investments were withdrawn by the Authority as authorized by the Board.

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, 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 details of accounts receivable, net of an allowance for doubtful accounts, at September 30, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 851,775	\$ 2,041,312
Less allowance for doubtful accounts	<u>(458,191)</u>	<u>(1,738,686)</u>
	\$ <u>393,584</u>	\$ <u>302,626</u>

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

Notes to Financial Statements
September 30, 2017 and 2016

(5) Property and Equipment

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

	Estimated Useful Lives	Balance at October 1 2016	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2017
Non-depreciable:					
Land		\$ 2,776,034	\$ -	\$ -	\$ 2,776,034
Construction in progress		<u>-</u>	<u>370,196</u>	<u>(230,720)</u>	<u>139,476</u>
		<u>2,776,034</u>	<u>370,196</u>	<u>(230,720)</u>	<u>2,915,510</u>
Depreciable:					
Buildings and improvements	7 - 70 years	17,155,633	230,720	-	17,386,353
Machinery and equipment	3 - 5 years	<u>3,212,926</u>	<u>145,619</u>	<u>(4,941)</u>	<u>3,353,604</u>
		20,368,559	376,339	(4,941)	20,739,957
Less accumulated depreciation		<u>(16,648,491)</u>	<u>(506,806)</u>	<u>4,941</u>	<u>(17,150,356)</u>
		<u>3,720,068</u>	<u>(130,467)</u>	<u>-</u>	<u>3,589,601</u>
Property and equipment, net		\$ <u>6,496,102</u>	\$ <u>239,729</u>	\$ <u>(230,720)</u>	\$ <u>6,505,111</u>
	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		<u>451,440</u>	<u>326,057</u>	<u>(777,497)</u>	<u>-</u>
		<u>3,227,474</u>	<u>326,057</u>	<u>(777,497)</u>	<u>2,776,034</u>
Depreciable:					
Buildings and improvements	7 - 70 years	16,378,136	777,497	-	17,155,633
Machinery and equipment	3 - 5 years	<u>3,139,214</u>	<u>73,712</u>	<u>-</u>	<u>3,212,926</u>
		19,517,350	851,209	-	20,368,559
Less accumulated depreciation		<u>(16,034,474)</u>	<u>(614,017)</u>	<u>-</u>	<u>(16,648,491)</u>
		<u>3,482,876</u>	<u>237,192</u>	<u>-</u>	<u>3,720,068</u>
Property and equipment, net		\$ <u>6,710,350</u>	\$ <u>563,249</u>	\$ <u>(777,497)</u>	\$ <u>6,496,102</u>

(6) Related Party Transactions

During the year September 30, 2017, the Authority recorded, as net of seaport charges, \$237,001 due to the Pohnpei State Government (PSG). 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, 2017, unremitted balance of \$20,553 is presented as due to PSG in the accompanying financial statements.

(7) 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.

(8) 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.

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

Notes to Financial Statements
September 30, 2017 and 2016

(9) 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:

<u>Year ending September 30,</u>	<u>Total</u>
2018	\$ 453,000
2019	473,000
2020	158,000
2021	142,000
2022	102,000
2023	<u>75,000</u>
	<u>\$ 1,403,000</u>

(10) 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, 2017 and 2016 were \$44,565 and \$38,243, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Authority. As of September 30, 2017 and 2016, plan assets were \$689,287 and \$636,065, respectively.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Pohnpei Port Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pohnpei Port Authority (the Authority), which comprise the statements 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 April 17, 2018.

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 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 2017-001.

The Authority's Responses to Findings

The Authority's responses to the finding 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

April 17, 2018

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

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding No.: 2017-001

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:

<u>#</u>	<u>Description</u>	<u>Document#</u>	<u>Amount</u>
1	X-ray baggage scanner	JPPA003	\$ 39,850
2	Seaport Restricted signs	INV6260	3,900
3	Mercury 150 xL 45 SEA PRO	195596	<u>15,500</u>
			\$ <u>59,250</u>

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: PPA has now a procurement policy in place and as recommended, PPA will implement such policy in FY2018, to maximize full and open competition for purchases that require bidding and any purchase of \$300 or more will require at least 3 vendors to choose from.