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April 19, 2019

The Board of Directors
Pohnpei Port Authority

Dear Members of the Board:

We have performed an audit of the financial statements of the Pohnpei Port Authority (the Authority), a component unit of the Pohnpei State Government, as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated April 19, 2019.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Authority is responsible.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the staff and management of the Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

cc: To Management of Pohnpei Port Authority

**OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("generally accepted government auditing standards"), have been described in our engagement letter dated September 21, 2018, a copy of which has been provided to you. As described in that letter, the objectives of an audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on whether the statement of net position of the Authority as of September 30, 2018 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") and perform specified procedures on the required supplementary information for the year ended September 30, 2018; and

- Report on the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grants and other matters for the year ended September 30, 2018 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in generally accepted government auditing standards.

Our responsibilities under generally accepted auditing standards and generally accepted government auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

**ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Authority's 2018 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2018, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Authority's financial reporting process. Such proposed adjustments, listed in Appendix A to Attachment III, have been recorded in the accounting records and are reflected in the 2018 financial statements.

In addition, included as Appendix B to Attachment III, is a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## SIGNIFICANT ACCOUNTING POLICIES

The Authority's significant accounting policies are set forth in Note 2 to the Authority's 2018 financial statements. During the year ended September 30, 2018, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority, which did not have a material effect on the financial statements:

- GASB 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.

- GASB 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.

- GASB 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).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 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 June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

## SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

We have evaluated the significant qualitative aspects of the Authority's accounting policies, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

## DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Authority's 2018 financial statements.

## OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2018.

## OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Authority's 2018 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in the Authority's 2018 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

## SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

## SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Authority's management and staff and had unrestricted access to the Authority's senior management in the performance of our audit.

## MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Authority's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Authority is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment III, a copy of the representation letter we obtained from management.

**CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated April 19, 2019, on the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. Within that report, we noted certain matter that was considered to be significant deficiency under standards established by the American Institute of Certified Public Accountants.

We have identified, and included in Attachment I, deficiencies related to the Authority's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention.

The definition of a deficiency is also set forth in Attachment I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Attachment II and should be read in conjunction with this report.

## SECTION I –DEFICIENCIES

We identified the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2018:

1. Accrued Expenses

   Comment: Expenses of approximately $12,000 relating to 30% shares on anchorage fees earned during the year ended September 30, 2018 were not accrued. Pilotage service costs of approximately $56,000 relating to 50% of pilotage service fees earned during the year were not accrued. Also, accrued salaries relating to September 30, 2017 was not properly reversed during the year ended September 30, 2018 due to oversight.

   Recommendation: The Authority should establish policies and procedures requiring review and monitoring of accrued expenses.

2. Lease Agreements

   Comment: Twelve lease agreements tested were expired and did not have signed extensions on file.

   Recommendation: Leases should be timely updated and duly approved.

3. Investment Accounting Policy

   Comment: The Authority does not have a formal investment accounting policy.

   Recommendation: Management should formalize an investment accounting policy.

4. Stale-Dated Checks

   Comment: Liability relating to stale-dated checks with no movement for the last three years has not been asssessed for adjustment.

   Recommendation: The Authority should regularly monitor bank reconciliations and establish a policy to write off stale-dated checks.

5. Accounts Receivables

   Comment: As of September 30, 2018, an allowance for doubtful accounts analysis was not performed. The Authority has not implemented a review process of receivables and the related allowance for doubtful accounts. Additionally, at September 30, 2018, non-trade AR of $93,387, although fully allowed for, has been unreconciled and carried over for four years.

   Recommendation: Management should periodically perform an analysis of the allowance for doubtful accounts at least on an annual basis. We also recommend management to consider obtaining board approval to write-off unaccounted receivables if no further action can be taken.

## SECTION I –DEFICIENCIES, CONTINUED

6. Fixed Assets

Comment: Three assets (ID #1443-031, #1443-069, #1410-071) selected for existence verification were not in the possession of the Authority as they have not been returned by previous officers.

Additionally, the Authority does not conduct periodic verification of fixed assets. As a result, several disposals were not removed from the fixed assets register.

Recommendation: The Authority should consider preparing policies relating to assets provided to officers/directors for business use for proper safe keeping and surrendering. The Authority should also consider conducting periodic verification of fixed assets to facilitate accurate record keeping and accountability.

7. Construction in Progress (CIP)

Comment: At September 30, 2018, two completed projects were not transferred to fixed assets for depreciation. Additionally, four projects transferred to fixed asset had incorrect transfer dates resulting in incorrect depreciation expense during the year.

Recommendation: The Authority should regularly monitor the CIP schedule for completed projects and timely reclassification.

8. Accrued Utilities and Port Charges

Comment: As of September 30, 2018, the Authority did not update its accrued revenue relating to tenants' share of terminal utilities. The Authority also did not accrue its gross receipts share from one tenant.

Recommendation: The Authority should establish policies and procedures requiring review and monitoring of accrued revenues.

9. Personal Email

Comment: As of September 30, 2018, the Authority does not have a corporate domain for business email addresses. Hence, employees were using personal email addresses for business purposes.

Recommendation: The Authority should consider establishing corporate domain to minimize sending and receiving official information through unsecured channels.

10. Related Party Advances

Comment: As of September 30, 2018, net receivables from the FSM National Government of $152,086 had no movement for the last five years and no follow ups have been performed on the outstanding balances.

Recommendation: The Authority should communciate with the FSM National Government regarding these balances and make necessary adjustment, if such is deemed to be uncollectible.

## SECTION II – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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 misstatements on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

## MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

### Management's Responsibility

The Authority's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

### Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ATTACHMENT III


# POHNPEI PORT AUTHORITY

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Federated States of Micronesia 96941
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Website: www.ppa.fm




April 19, 2019

Deloitte & Touche LLP
361 S. Marine Drive
Tamuning, Guam 96913-3911

We are providing this letter in connection with your audits of the statements of net position of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2018 and 2017 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, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position and results of operations, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The preparation and fair presentation in the financial statements of financial position, changes in net position, and cash flows of the Authority in conformity with GAAP.

b. 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
- To prevent and detect fraud

c. The review and approval of the financial statements and related notes and acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree with the recorded adjustments included in Appendix A.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be charged or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:

   a. Net position components (net investment in capital assets; restricted and unrestricted) are properly classified and, if applicable, approved;

   b. Deposits and investment securities are properly classified in category of custodial credit risk.

   c. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.

   d. Required supplementary information is measured and presented within prescribed guidelines.

   e. Applicable laws and regulations are followed in adopting, approving and amending budgets.

   f. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

   g. Revenues are appropriately classified in the statement of activities

2. The Authority has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Authority has made available to you:

   a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings up to March 22, 2019, for which minutes of meetings after that date until the date of this letter have not been prepared but did not contain significant matters of audit concern.

   b. All financial records and related data for all financial transactions of the Authority and for all funds administered by the Authority. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Authority and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

   c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with regulatory agencies.

4. There have been no:

   a. Action taken by the Authority management that contravenes the provisions of federal laws and Federated State of Micronesia's (FSM) laws and regulations, or of contracts and grants applicable to the Authority; and

   b. Communications with other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.

6. The Authority has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risk of fraud in the Authority and do not believe that the financial statements are materially misstated as a result of fraud.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority involving:

   a. Management

   b. Employees who have significant roles in the Authority's internal control.

   c. Others, where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators, or others.

9. There are no unasserted claims or assessments that we are aware or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.

10. Significant assumptions used by us in making accounting estimates are reasonable.

11. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

12. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Entity*. No organizations were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*, for inclusion as a component unit.

13. We are responsible for compliance with local and FSM laws, rules and regulations, and provisions of grants and contracts relating to the Authority's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Authority is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets and liabilities.

14. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Authority's ability to initiate, record, process, and report financial information.

Except where otherwise stated below, immaterial matters less than $32,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

15. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

16. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

17. Regarding related parties:

    a. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

    b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

18. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

19. There are no:

    a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

    b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 7 to the financial statements.

20. The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the notes to the financial statements.

21. The Authority has complied with all aspects of contractual agreements that may affect the financial statements.

22. No department or agency of the Authority has reported a material instance of noncompliance to us.

23. The Authority has disclosed whether, subsequent to September 30, 2018, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.

24. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information

    b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*

    c. The methods of measurement and presentation of the supplement information have not changed from those used in the prior period.

25. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

    At September 30, 2018 and 2017, net advance due from FSM National Government (FSMNG) of $152,086 is believable to be valid and collectible, and as such, no allowance for doubtful account has been provided. The Authority will follow up with FSMNG on collection of this balance and expect such to be resolved during the year ending September 30, 2019.

26. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.

27. During the year ended September 30, 2018, the Authority implemented the following pronouncements, which had no material effect on the financial statements:

    - GASB 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.

    - GASB 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.

    - GASB 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).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

28. 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.

29. 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.

30. 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.

31. In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 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.

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

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

34. 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. Management is of the opinion that the Plan does not represent an asset or a liability of the Authority.

35. No events have occurred after September 30, 2018, but before April 19, 2019, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

Plus Roby
General Manager

Pelma J. Mingii
Comptroller

**APPENDIX A**
**RECORDED ADJUSTMENTS AND RECLASSIFICIAOTNS**

**AUDIT ADJUSTING ENTRIES**

| | | | |
|---|---|---|---|
| | **1 AJE To adjust investment based on GASB 72** | | |
| 1010 | Shares - FSM Bank | 7,298 | |
| 4701 | Unrealized gain/loss on investment | | 7,298 |
| | | 7,298 | 7,298 |
| | To adjust investment based on GASB 72 | | |
| | **2 AJE To correct 30% PSG share** | | |
| 4213 | Anchorage Fees - 30% | | 11,963 |
| 2510 | Accrued Expenses | 11,963 | |
| | | 11,963 | 11,963 |
| | To correct 30% PSG share | | |
| | **3 AJE To reverse FY17 pilotage fee accrual** | | |
| 5410 | Cost of Pilotage Services | | 40,764 |
| 2510 | Accrued Expenses | 40,764 | |
| | | 40,764 | 40,764 |
| | To reverse FY17 accrual | | |
| | **4 AJE To reverse FY17 salaries accrual** | | |
| 2503 | Accrued payroll | 12,707 | |
| 5001 | Salaries | | 12,707 |
| | | 12,707 | 12,707 |
| | To reverse FY17 accrual | | |
| | **5 AJE To correct beginning retained earnings** | | |
| 5505 | Capital Improvement Projects | 111,495 | |
| 5606 | Prepaid Expenses | 4,900 | |
| 3001 | Retained Earnings, unappropria | | 116,395 |
| | | 116,395 | 116,395 |
| | To correct beginning retained earnings | | |
| | **6 AJE To correct CIP** | | |
| 1412 | Buildings and Improvements | 181,812 | |
| 1501 | Construction in Progress | | 70,317 |
| 5505 | Capital Improvement Projects | | 111,495 |
| 5601 | Depreciation | 7,640 | |
| 1413 | Acc. Dep. - Buildings and Improvements | | 7,640 |
| | | 189,452 | 189,452 |
| | To correct CIP | | |
| | **7 AJE To correct depreciation** | | |
| 5601 | Depreciation | 11,267 | |
| 1413 | Acc. Dep. - Buildings and Improvements | | 11,267 |
| | | 11,267 | 11,267 |
| | **8 AJE To record disposal of assets** | | |
| 1444 | Acc. dep'n.- Other Assets | 30,262 | |
| 4601 | Gain/Loss on Sale of Fixed Assets | 1,242 | |
| 1431 | Acc. Dep. - Service Vehicles | 5,080 | |
| 1422 | Machinery and Equipment | - | |
| 1443 | Other assets | | 31,504 |
| 1430 | Service Vehicle | | 5,080 |
| | | 36,584 | 36,584 |
| | To record assets disposal of assets | | |
| | **9 AJE To record additional allowance for doubtful accounts** | | |
| 5553 | Bad debts | 30,641 | |
| 1102 | Allow. D/A - trade rec. | | 30,641 |
| | | 30,641 | 30,641 |
| | To record additional allowance for doubtful accounts | | |
| | **10 AJE To accrue pilotage fee in FY18** | | |
| 2510 | Accrued Expenses | | 55,582 |
| 5410 | Cost of Pilotage Services | 55,582 | |
| | | 55,582 | 55,582 |
| | To accrued FY18 pilotage fees based on 50% of pilotage revenue. | | |
| | **11 AJE To correct accrued revenue** | | |
| 2511 | Accrued Revenue | | 10,219 |
| 4108 | Terminal Utilities | 10,219 | |
| | | 10,219 | 10,219 |
| | To correct accrued revenue | | |

**APPENDIX B**
**UNCORRECTED MISSTATEMENT**

| | ASSETS DR (CR) | LIABILITIES DR (CR) | Beginning Net Position DR (CR) | CHANGE IN NET POSITION DR (CR) |
|---|---|---|---|---|
| **<1> - To reverse unreconciled accrual** | | | | |
| Dr. Accrued liability | | 8,590 | | |
| Cr. Other income | | | | (8,590) |
| **<2> - To reclassify stale dated checks** | | | | |
| Dr. Cash in bank | 18,007 | | | |
| Cr. Other liabilities | | (18,007) | | |
| **<3> - To reclassify negative AR to advances** | | | | |
| Dr. Accounts receivable | 10,038 | | | |
| Cr. Advances | | (10,038) | | |
| **<4> - To reclassify undeposited collections** | | | | |
| Dr. Cash on hand | 51,713 | | | |
| Cr. Cash in bank | (51,713) | | | |