

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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

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Years Ended September 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei Port Authority:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pohapei Port Authority as of September 30, 2018 and 2017, 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 19, 2019, 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 19, 2019

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

Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

Our discussion and analysis of the Pohnpei Port Authority's ("the Authority" or "PPA") financial performance provides an overview of the Authority's financial activities for fiscal year (FY) ended September 30, 2018. Please read it in conjunction with the Authority's financial statements, which follows this section.

Financial Highlights

- Operating revenues increased by \$438,290 or 10.4% from last year.
- Operating expenses were \$30,365 or 0.9% higher compared to fiscal year 2017.
- Current assets increased by \$1,319,382 or 28%.
- Liabilities increased by \$60,000 or 17.6%.
- Net position increased by \$1,304,226.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Authority. Included in this report are the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position. These financial statements present the complete financial picture of the Authority from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets and liabilities of the Authority and current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The accounts of the Authority are organized as a proprietary fund. Governmental units that are operated in a manner similar to private business enterprises use proprietary funds. The Authority prepares and submits a detailed statement of its proposed annual budget to the Governor on or before March 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 Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report the financial condition or position and results of operations of the Authority. They present the assets, liabilities and the difference between assets and liabilities. They report the information whether the Authority has sufficient resources to meet its current and long-term obligations as well. They present whether the Authority's financial health is improving, deteriorating, or remain 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 \$1,319,382 or 28%. Investments increased by \$7,298 or 3.1%. Capital assets increased by \$37,546 or 0.6%. On the other hand, liabilities increased by \$60,000 or 17.6%. Overall, net position increased by \$1,304,226.

POHNPEI PORT AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

The following summarizes the Authority's financial condition for fiscal years 2016 to 2018:

	2018	2017	FY 18 vs FY 17		2016
			Increase(decrease)		
Assets:					
Current assets	\$ 6,039,594	\$ 4,720,212	\$ 1,319,382	28.0%	\$ 2,085,543
Advances to FSMNG	229,868	229,868	-	-	229,868
Capital assets, net	6,542,657	6,505,111	37,546	0.6%	6,496,102
Investments	242,088	234,790	7,298	3.1%	1,827,543
Other assets	-	-	-	-	9,754
Total assets	\$ <u>13,054,207</u>	\$ <u>11,689,981</u>	\$ <u>1,364,226</u>	<u>11.7%</u>	\$ <u>10,648,810</u>
Liabilities and net position:					
Current liabilities	\$ <u>401,412</u>	\$ <u>341,412</u>	\$ <u>60,000</u>	<u>17.6%</u>	\$ <u>324,788</u>
Total liabilities	<u>401,412</u>	<u>341,412</u>	<u>60,000</u>	<u>17.6%</u>	<u>324,788</u>
Net position:					
Net investment in capital assets	6,542,657	6,505,111	37,546	0.6%	6,496,102
Unrestricted	<u>6,110,138</u>	<u>4,843,458</u>	<u>1,266,680</u>	<u>26.2%</u>	<u>3,827,920</u>
Total net position	<u>12,652,795</u>	<u>11,348,569</u>	<u>1,304,226</u>	<u>11.5%</u>	<u>10,324,022</u>
Total liabilities and net position	\$ <u>13,054,207</u>	\$ <u>11,689,981</u>	\$ <u>1,364,226</u>	<u>11.7%</u>	\$ <u>10,648,810</u>

The Authority's net position from fiscal years 2015 to 2018 are as follows:

	2018	2017	2016	2015
Current assets	\$ 6,039,594	\$ 4,720,212	\$ 2,085,543	\$ 2,358,956
Capital assets, net	6,542,657	6,505,111	6,496,102	6,710,350
Other assets	229,868	229,868	239,622	239,622
Investments	242,088	234,790	1,827,543	1,735,324
Current liabilities	<u>(401,412)</u>	<u>(341,412)</u>	<u>(324,788)</u>	<u>(303,063)</u>
Net position	\$ <u>12,652,795</u>	\$ <u>11,348,569</u>	\$ <u>10,324,022</u>	\$ <u>10,741,189</u>

Changes in Net Position

Seaport revenues increased by \$479,010 or 18.3% compared to fiscal year 2017. Overall revenues increased by \$438,290 or 10.4% while operating expenses increased by \$30,365 or 0.9% from last year. The increase of expenses by 0.9% did not have great impact to the revenue increase of 7.1% resulting in net earnings of \$1,304,226.

POHNPEI PORT AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

The Authority's changes in net position for fiscal years 2016 to 2018 are as follows:

	<u>2018</u>	<u>2017</u>	<u>FY 2018 vs FY 2017</u> <u>Increase(decrease)</u>		<u>2016</u>
Operating revenues:					
Seaport charges	\$ 3,100,121	\$ 2,621,111	\$ 479,010		\$ 1,519,505
Land leases and space rentals	599,548	614,001	(14,453)		565,884
Departure fees	516,115	450,105	66,010		391,820
Landing fees	114,319	101,746	12,573		96,683
Other	<u>329,138</u>	<u>433,988</u>	<u>(104,850)</u>		<u>317,222</u>
Total operating revenues	4,659,241	4,220,951	438,290	10.4%	2,891,114
Bad debt (expense) recoveries	<u>(30,641)</u>	<u>93,081</u>	<u>(123,722)</u>	(132.9%)	<u>(135,145)</u>
Net operating revenues	<u>4,628,600</u>	<u>4,314,032</u>	<u>314,568</u>	<u>7.3%</u>	<u>2,755,969</u>
Operating expenses:					
Salaries and benefits	1,517,313	1,582,159	(64,846)		1,626,845
Contractual services	533,998	413,249	120,749		227,215
Depreciation	417,595	506,806	(89,211)		614,017
Utilities	221,639	234,116	(12,477)		226,030
Repairs	154,321	106,812	47,509		66,566
Training	141,115	92,238	48,877		120,766
Supplies and materials	96,463	112,055	(15,592)		121,975
Travel	84,548	94,985	(10,437)		109,740
Fuel	74,118	62,789	11,329		92,672
Communication	31,974	33,656	(1,682)		37,143
Miscellaneous and others	<u>81,157</u>	<u>85,011</u>	<u>(3,854)</u>		<u>63,654</u>
Total operating expenses	<u>3,354,241</u>	<u>3,323,876</u>	<u>30,365</u>	0.9%	<u>3,306,623</u>
Income (loss) from operations	<u>1,274,359</u>	<u>990,156</u>	<u>284,203</u>	28.7%	<u>(550,654)</u>
Non-operating revenues:					
Investment income	26,674	29,450	(2,776)		133,487
Gain from sale of assets	<u>3,193</u>	<u>4,941</u>	<u>(1,748)</u>		<u>-</u>
Total non-operating revenues, net	<u>29,867</u>	<u>34,391</u>	<u>(4,524)</u>	(13.2%)	<u>133,487</u>
Change in net position	<u>\$ 1,304,226</u>	<u>\$ 1,024,547</u>	<u>\$ 279,679</u>	<u>27.3%</u>	<u>\$ (417,167)</u>

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Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

Capital Assets

Capital assets increased by \$37,546 during FY 2018. Net investment in capital assets totaled \$6,542,657 at September 30, 2018.

Additions for capital assets for FY 2018 include renovation of hangar, construction of seaport workshop, terminal repainting project, seaport office renovation, search room construction and departure re-varnish project.

Summary of capital assets as of September 30, 2018:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Buildings and improvements	\$ 17,760,090	\$ (14,316,788)	\$ 3,443,302
Machinery and equipment	3,524,322	(3,215,821)	308,501
Land	2,776,034	-	2,776,034
Construction in Progress	<u>14,820</u>	<u>-</u>	<u>14,820</u>
Total	\$ <u>24,075,266</u>	\$ <u>(17,532,609)</u>	\$ <u>6,542,657</u>

Long-Term Debt

The Authority did not have any long-term debt or long-term liabilities existing at September 30, 2018, 2017 and 2016.

Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in the Authority's report on the audit of financial statements, which is dated April 17, 2018. That Discussion and Analysis explains the major factors impacting the 2017 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at www.fsmopa.fm.

FY 2019 Economic Outlook

PPA will continue to see increase in cost of 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.

PPA is in the process of reviewing its current tariffs for Airport and Seaport to identify which ones are due for change to sustain the increasing cost of operation.

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.

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Years Ended September 30, 2018 and 2017

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
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Statements of Net Position
September 30, 2018 and 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 5,526,850	\$ 4,274,620
Accounts receivable, net	448,591	393,584
Advances	32,471	26,697
Prepaid expenses	<u>31,682</u>	<u>25,311</u>
Total current assets	<u>6,039,594</u>	<u>4,720,212</u>
Noncurrent assets:		
Investments	242,088	234,790
Advances to FSM National Government	229,868	229,868
Depreciable property and equipment, net	3,751,803	3,589,601
Non-depreciable property and equipment	<u>2,790,854</u>	<u>2,915,510</u>
Total noncurrent assets	<u>7,014,613</u>	<u>6,969,769</u>
	<u>\$ 13,054,207</u>	<u>\$ 11,689,981</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 21,473	\$ 16,552
Accrued liabilities and others	188,905	141,005
Due to FSM National Government	77,782	77,782
Due to Pohnpei State Government	20,685	20,553
Accrued annual leave	<u>92,567</u>	<u>85,520</u>
Total current liabilities	<u>401,412</u>	<u>341,412</u>
Commitments and contingency		
Net position:		
Net investment in capital assets	6,542,657	6,505,111
Unrestricted	<u>6,110,138</u>	<u>4,843,458</u>
Total net position	<u>12,652,795</u>	<u>11,348,569</u>
	<u>\$ 13,054,207</u>	<u>\$ 11,689,981</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Seaport charges	\$ 3,100,121	\$ 2,621,111
Land leases and space rentals	599,548	614,001
Departure fees	516,115	450,105
Landing fees	114,319	101,746
Other	329,138	433,988
Total operating revenues	<u>4,659,241</u>	<u>4,220,951</u>
Bad debt (expense) recovery	<u>(30,641)</u>	<u>93,081</u>
Net operating revenues	<u>4,628,600</u>	<u>4,314,032</u>
Operating expenses:		
Salaries and benefits	1,517,313	1,582,159
Contractual services	533,998	413,249
Depreciation	417,595	506,806
Utilities	221,639	234,116
Repairs	154,321	106,812
Training	141,115	92,238
Supplies and materials	96,463	112,055
Travel	84,548	94,985
Fuel	74,118	62,789
Communication	31,974	33,656
Miscellaneous and others	81,157	85,011
Total operating expenses	<u>3,354,241</u>	<u>3,323,876</u>
Income from operations	<u>1,274,359</u>	<u>990,156</u>
Nonoperating revenues, net:		
Interest and investment income	26,674	29,450
Gain from sale of assets	3,193	4,941
Total nonoperating revenues, net	<u>29,867</u>	<u>34,391</u>
Change in net position	1,304,226	1,024,547
Net position at beginning of year	<u>11,348,569</u>	<u>10,324,022</u>
Net position at end of year	<u>\$ 12,652,795</u>	<u>\$ 11,348,569</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from customers	\$ 4,734,471	\$ 4,456,910
Cash paid to suppliers for goods and services	(1,539,403)	(1,396,794)
Cash paid to employees	(1,510,266)	(1,593,007)
Net cash provided by operating activities	1,684,802	1,467,109
Cash flows from capital and related financing activities:		
Proceeds from sale of property and equipment	4,435	4,941
Acquisition of property and equipment	(456,383)	(515,815)
Net cash used in capital and related financing activities	(451,948)	(510,874)
Cash flows from investing activities:		
Withdrawals from investments	-	1,599,448
Interest and investment income	19,376	22,755
Net cash provided by investment activities	19,376	1,622,203
Net change in cash and cash equivalents	1,252,230	2,578,438
Cash and cash equivalents at beginning of year	4,274,620	1,696,182
Cash and cash equivalents at end of year	\$ 5,526,850	\$ 4,274,620
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 1,274,359	\$ 990,156
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	417,595	506,806
Write-off of spare parts	-	9,754
Bad debt expense (recovery)	30,641	(93,081)
(Increase) decrease in assets:		
Accounts receivable	(85,648)	2,123
Advances	(5,774)	12,076
Prepaid expenses	(6,371)	22,651
Increase (decrease) in liabilities:		
Accounts payable	4,921	(9,276)
Accrued liabilities and others	47,900	31,840
Due to FSM National Government	-	(404)
Due to Pohnpei State Government	132	20,553
Accrued annual leave	7,047	(10,848)
Unearned revenue	-	(15,241)
Net cash provided by operating activities	\$ 1,684,802	\$ 1,467,109

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2018 and 2017

(1) Reporting Entity

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

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

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

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

Estimates

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

Net Position

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

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Notes to Financial Statements
September 30, 2018 and 2017

(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, 2018 and 2017, the carrying amount of the Authority's total cash and cash equivalents was \$5,526,850 and \$4,274,620, respectively, and the corresponding bank balances were \$ 5,664,695 and \$4,432,623, respectively, which are primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018 and 2017, bank deposits in the amount of \$500,000 were FDIC insured. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

Receivables

Accounts receivable are due from businesses and individuals based in Pohnpei State that relate to public land leases, space rentals, landing fees, port and handling charges, wharfage, gross receipts fees and other fees. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Bad debts are ultimately written-off against the allowance on the specific identification method.

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Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Investments

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

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

Property and Equipment

Property and equipment are stated at cost or at estimated appraised values as of the transfer date, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets. All assets have an estimated useful life of three to seventy years. The Authority utilizes a capitalization threshold of \$300. Land is recorded based on an appraisal of the Authority facilities performed during the year ended September 30, 1996.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefit accrues to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The related sick pay expense is recorded when the benefit is actually taken.

Taxes

Corporate profits are not subject to income tax in the Federated States of Micronesia. The Government of the Federated States of Micronesia imposes a gross receipts tax of 3% on revenues. The Authority is specifically exempt from this tax.

Advances to FSM National Government

The FSM National Government administers various construction grants that require a matching share. The Authority provided the match in advance which will be capitalized into capital assets upon the turnover of the final project to the Authority.

New Accounting Standards

During the year ended September 30, 2018, the Authority implemented the following pronouncements, which had no material effect to the accompanying 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.

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- 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.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

In 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.

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Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

(3) Investments

At September 30, 2018 and 2017, investments represent 10,000 common shares in Bank of FSM (BFSM), which approximated 1% ownership interest. The total shareholders’ equity reported by BFSM approximated \$22,625,000 and \$21,943,000 at September 30, 2018 and 2017, respectively.

(4) Accounts Receivable

The details of accounts receivable, net of an allowance for doubtful accounts, at September 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ 937,423	\$ 851,775
Less allowance for doubtful accounts	<u>(488,832)</u>	<u>(458,191)</u>
	\$ <u>448,591</u>	\$ <u>393,584</u>

(5) Property and Equipment

Capital asset activities for the years ended September 30, 2018 and 2017, were as follows:

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

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Notes to Financial Statements
September 30, 2018 and 2017

(5) Property and Equipment, Continued

	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>

(6) Related Party Transactions

During the years ended September 30, 2018 and 2017, the Authority recorded, as net of seaport charges, \$166,652 and \$237,001 due to the Pohnpei State Government (PSG), respectively. The amount represents 30% of anchorage fees which are required to be remitted to PSG pursuant to Public Law 8L-83-15, effective October 1, 2015. At September 30, 2018 and 2017, unremitted balance of \$20,685 and \$20,553, respectively, is presented as due to PSG in the accompanying financial statements.

(7) Risk Management

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

(8) Future Rental Revenues

The Authority is a party to operating lease agreements for land and concession stands that expire in various dates through 2023 with other component units of the Pohnpei State Government or the FSM National Government and private corporations. Some of the agreements contain options to renew. The approximate future minimum rental revenues are as follows:

Year ending <u>September 30,</u>	<u>Total</u>
2019	\$ 390,000
2020	171,000
2021	115,000
2022	112,000
2023	<u>83,000</u>
	\$ <u>871,000</u>

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Notes to Financial Statements
September 30, 2018 and 2017

(9) Retirement Plan

The Authority's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. The Plan is a contributory plan in which the Authority contributes a maximum of 7.5 percent of participants' annual salary. Participation is optional. Vesting of the Authority's contributions occurs over a six-year period. The Authority's Human Resources Manager is the designated Plan administrator. Contributions to the Plan during the years ended September 30, 2018 and 2017 were \$44,166 and \$44,565, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Authority. As of September 30, 2018 and 2017, plan assets were \$752,719 and \$689,287, respectively.

(10) 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.

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, 2018, 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 19, 2019.

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 2018-001.

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 19, 2019

POHNPEI PORT AUTHORITY
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Unresolved Prior Year Findings
Year Ended September 30, 2018

Finding No.: 2018-001

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	Departure skylight roof ct17-04	APP17- 04.06,07,08	\$ 40,887
2	Procurement & Installation of galvanize frame bldg. ct17-05	APP17- 05.03,04,05,0 6	102,410
3	Yamaha boat 23 ft fiberglass serial#2210/K17 po11956	185	7,166
4	Hand held radio motorola xpr 3300 po12056	2018-007	<u>650</u>
			\$ <u>151,113</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 asset capitalization threshold was increased to \$1,000 beginning October 1, 2018. Also, PPA will come up with a procurement manual that will identify all the procedures to maximize full and open competition. In the meantime, PPA will make sure that any major purchases will have the evidence of full and open competition by requiring open bid for all interested vendors or suppliers

POHNPEI PORT AUTHORITY
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Unresolved Prior Year Findings
Year Ended September 30, 2018

Summary Schedule of Prior Audit Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2017-001	Procurement Documents	Not Corrected or Resolved.