

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

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEAR ENDED SEPTEMBER 30, 2022**

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

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**BURGER · COMER · & ASSOCIATES**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Pohnpei Port Authority:

**Report on the Audit of the Financial Statements**

**Opinion**

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 statement of net position as of September 30, 2022, the 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, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of September 30, 2022, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2024 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 solely 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 the effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.

*Bryce Combs & Associates*

February 16, 2024  
Tamuning, Guam

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

Management's Discussion and Analysis  
Year Ended September 30, 2022

The Pohnpei Port Authority's (the Authority) financial performance is the main subject of this Management's Discussion and Analysis (MD&A), which gives a summary of the Authority's financial performance for the fiscal year ending September 30, 2022. Please read it in conjunction with the Authority's financial statements, which follow this section.

**Financial Highlights**

- Net Operating revenues increased by \$210,902 or 9% higher than FY 2021.
- Operating expenses decreased by \$53,871 or 2 % lower compared to FY 2021.
- Current Assets increased by \$533,949 or 9 % from last FY 2021.
- Noncurrent Asset increased by \$2,225,805 or 34% from last FY 2021.
- Liabilities increased by \$2,387,567 or 795 % compared to fiscal year 2021.
- Net Position increased by \$ 372,187 or 3% from last FY 2021.

**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 Revenue, Expenses, and Changes in Net Position. These financial statements present the complete financial picture of the Authority from the economic resource 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 15<sup>th</sup> 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 Statements of Revenues, Expenses and Changes in Net Position**

The Statement 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 present the assets, liabilities and the difference between assets and liabilities. They report information on 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 remaining steady as prior year. They report the revenues earned and expenses incurred and whether the revenues are more or less than the expenses.

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

Management's Discussion and Analysis  
Year Ended September 30, 2022

**A Financial Analysis of the Authority as a Whole**

**1. Statement of Net Position**

A comparative Statement of Net Position at September 30, 2022, 2021 and 2020 is shown below:

<b>Statements of Net Position</b>					
<b>Years Ended September 30, 2022 and 2021</b>					
	<b>2022</b>	<b>2021</b>	<b>FY 22 vs FY 21</b>		<b>2020</b>
			<b>Increase (decrease)</b>		
Current assets	\$ 6,666,691	\$ 6,132,742	\$ 533,949	9%	\$ 6,128,967
Capital assets, net	6,186,287	6,271,041	(84,754)	-1%	6,500,842
Lease receivables (non-current)	2,363,281	-	2,363,281		-
Investment	<u>238,500</u>	<u>291,222</u>	<u>(52,722)</u>	-18%	<u>291,222</u>
<b>Total assets</b>	<b><u>\$ 15,454,759</u></b>	<b><u>\$ 12,695,005</u></b>	<b><u>\$ 2,759,754</u></b>	<b>22%</b>	<b><u>\$ 12,921,031</u></b>
Current liabilities	\$ 280,084	\$ 300,145	\$ (20,061)	-7%	\$ 318,037
Deferred inflows of resources from leases	<u>2,407,628</u>	-	<u>2,407,628</u>	100%	-
<b>Total liabilities and deferred inflows of resources from leases</b>	<b><u>2,687,712</u></b>	<b><u>300,145</u></b>	<b><u>2,387,567</u></b>	<b>795%</b>	<b><u>318,037</u></b>
<b>Net Position:</b>					
Invested in capital assets	6,186,287	6,271,041	(84,754)	-1%	6,500,842
Unrestricted	<u>6,580,760</u>	<u>6,123,819</u>	<u>456,941</u>	7%	<u>6,102,152</u>
<b>Total net position</b>	<b><u>12,767,047</u></b>	<b><u>12,394,860</u></b>	<b><u>372,187</u></b>	<b>3%</b>	<b><u>12,602,994</u></b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b><u>\$ 15,454,759</u></b>	<b><u>\$ 12,695,005</u></b>	<b><u>\$ 2,759,754</u></b>	<b>22%</b>	<b><u>\$ 12,921,031</u></b>

The aforementioned table's comparison of the net position shows an increase of 3%, or \$372,187.

The implementation of GASB 87 *Leases* in fiscal year 2022 resulted in a \$533,949 increase in current assets, including a \$332,482 lease receivable (current). Furthermore, the \$2,363,281 noncurrent lease receivable was recently added to the noncurrent assets. And a decrease in capital assets (net) of \$84,754. The asset's overall value increased by \$2,759,754.

**Current Assets:** The total increase in current assets is \$533,949 or 9%. The amount for FY 2021 was \$6,132,742, and this FY 2022 it is \$6,666,691. FY 2022 current assets are classified as follows:

- The amount of cash and cash equivalents decreased by \$19,095 or 0.34% from \$5,698,815 in FY 2021 to \$5,679,720 in FY 2022.

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Management's Discussion and Analysis  
Year Ended September 30, 2022

- Net accounts receivable increased by \$268,787, or 85%, from FY 2021 \$315,717 to FY 2022 \$584,504.
- Advances decreased by \$2,566 or 8% from \$30,678 in FY 2021 to \$28,112 in FY 2022.
- Prepaid expenses decreased by \$45,659, or 52%, from \$87,532 in FY 2021 to \$41,873 in FY 2022.
- Net Lease receivables totaled \$332,482 as a result of the implementation of GASB 87 during FY 2022.

The table mentioned earlier indicates that the implementation of GASB 87 had an effect on liabilities as well; however, it is classified as deferred inflows of resources on leases for financial statement presentation purposes. Consequently, total liabilities increased from \$300,145 in FY 2021 to \$2,687,712 in FY 2022, an increase of 795% or \$2,387,567. These liabilities consist of:

- An increase by \$58,106 or 260% in Accounts Payable from FY 2021 \$ 22,239 to \$80,445 in FY 2022.
- A decrease of \$64,744 or 38% on Accrued liabilities and others from FY 2021 \$169,074 to \$104,330 in FY 2022.
- A decreased of \$13,423 or 12% Accrued annual leave from FY 2021 \$ 108,732 to \$95,309 in FY 2022.

Again, as a result of the implementation of GASB 87, the Authority recognized \$2,407,628 as deferred inflows of resources on leases in FY 2022.

The Authority's net position from fiscal years 2018 to 2022 are as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 6,666,691	\$ 6,132,742	\$ 6,128,967	\$ 6,172,422	\$ 6,039,594
Capital assets, net	6,186,287	6,271,041	6,500,842	6,816,371	6,542,657
Lease receivable, net of current	2,363,281	-	-	229,868	229,868
Investment	238,500	291,222	291,222	272,304	242,088
Current liabilities	(280,084)	(300,145)	(318,037)	(715,327)	(401,412)
Deferred inflows of resources from leases	<u>(2,407,628)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Position</b>	<u>\$ 12,767,047</u>	<u>\$ 12,394,860</u>	<u>\$ 12,602,994</u>	<u>\$ 12,775,638</u>	<u>\$ 12,652,795</u>



**POHNPEI PORT AUTHORITY**  
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Management's Discussion and Analysis  
Year Ended September 30, 2022

**Changes in Net Position**

A comparative change of Net Position at September 30, 2022, 2021 and 2020 is shown below.

**Statements of Revenue, Expenses, and Changes in Net Position**  
**Years Ended September 30, 2022 and 2021**

	2022	2021	Change	%	2020
Operating revenues:					
Seaport charges	\$ 1,510,968	\$ 1,496,090	\$ 14,878	1%	\$ 1,886,044
Land leases and space rentals	424,201	640,293	(216,092)	-34%	646,601
Lease interest revenue	278,292	-	278,292	0%	-
Departure fees	199,250	110,985	88,265	80%	218,195
Landing fees	68,327	48,244	20,083	42%	73,997
Other	113,727	81,566	32,161	39%	165,879
Total operating revenues	<u>2,594,765</u>	<u>2,377,178</u>	<u>217,587</u>	<u>9%</u>	<u>2,990,716</u>
Bad debt expense	6,685	-	6,685		152,086
Net operating revenues	<u>2,588,080</u>	<u>2,377,178</u>	<u>210,902</u>	<u>9%</u>	<u>2,838,630</u>
Operating expenses:					
Salaries and benefits	1,496,724	1,577,515	(80,791)	-5%	1,678,516
Depreciation	425,043	378,257	46,786	12%	425,874
Contractual services	105,270	173,359	(68,089)	-39%	242,454
Utilities	198,922	140,547	58,375	42%	197,934
Supplies and materials	78,318	92,816	(14,498)	-16%	118,903
Training	7,601	-	7,601	100%	47,641
Equipment rental	3,790	660	3,130	474%	49,551
Travel	1,600	20,908	(19,308)	-92%	84,823
Fuel	82,311	75,776	6,535	9%	102,627
Repairs	98,233	90,117	8,116	9%	33,185
Communication	30,672	38,252	(7,580)	-20%	1,900
Miscellaneous and others	81,756	75,904	5,852	8%	74,567
Total operating expenses	<u>2,610,240</u>	<u>2,664,111</u>	<u>(53,871)</u>	<u>-2%</u>	<u>3,057,975</u>
Earnings (loss) from operations	<u>(22,160)</u>	<u>(286,933)</u>	<u>264,773</u>	<u>92%</u>	<u>(219,345)</u>
Nonoperating revenues:					
Grants	213,842	64,472			-
Interest and investment income	7,072	14,327	(7,255)	-51%	39,400
Gain on sale of fixed asset	3,501	-	3,501	100%	-
Unrealized loss on investment	(52,722)	-	(52,722)	100%	-
Other non operating income	-	-	-	0%	7,301.00
Total nonoperating revenues	<u>171,693</u>	<u>78,799</u>	<u>92,894</u>	<u>118%</u>	<u>46,701</u>
Earnings (loss) before capital contributions	<u>149,533</u>	<u>(208,134)</u>	<u>357,667</u>	<u>172%</u>	<u>(172,644)</u>
Change in net position	<u>149,533</u>	<u>(208,134)</u>	<u>357,667</u>	<u>172%</u>	<u>(172,644)</u>
Net position at beginning of year	12,394,860	12,602,994	(208,134)	-2%	12,775,638
Prior period adjustment	222,654	-	-		-
Total net position - beginning of year, restated	<u>12,617,514</u>	<u>12,602,994</u>	<u>14,520</u>	<u>0%</u>	<u>12,775,638</u>
Net position at end of year	<u>\$12,767,047</u>	<u>\$ 12,394,860</u>	<u>\$372,187</u>	<u>3%</u>	<u>\$ 12,602,994</u>

The total operating revenues improved from \$2,377,178 in FY 2021 to \$2,594,760 in FY 2022, an increased by \$217,582 or 9%.

- Seaport revenue increased by \$14,878 or 1% compared to FY 2021.
- Departure Fees increased by \$88,265 or 80% compared to FY 2021.

**POHNPEI PORT AUTHORITY**  
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Management's Discussion and Analysis  
Year Ended September 30, 2022

**Changes in Net Position, continued**

- Landing Fees and other revenue increased by \$52,244 or 40% compared to FY 2021.
- Total Operating expenses is 2% lower compared to FY 2021.
- Total Earnings before capital contributions is 172% higher compared to FY 2021.

**Capital Assets**

Capital assets decreased by \$84,754 during FY 2022. Net investment in capital assets totaled \$6,186,287 as of September 30, 2022.

The addition of capital assets for FY 2022 includes the improvements of runway, project for the enhancement of security port, acquisition of air conditions, and vehicles. The Authority also received equipment from the Office of Insular Affairs (OIA) which included a mower with a loader and an airport runway sweeper. The Authority also disposed assets such as its boom truck.

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Building and Improvements	\$ 18,211,539	\$ 15,221,496	\$ 2,990,043
Machinery and Equipment	4,403,051	3,982,841	420,210
Land	<u>2,776,034</u>	<u>-</u>	<u>2,776,034</u>
Total	<u>\$ 25,390,624</u>	<u>\$ 19,204,337</u>	<u>\$ 6,186,287</u>

**Deferred Inflows of Resources on Leases**

The implementation of GASB 87 in FY 2022 has had an impact on the Authority's lease-related noncurrent liabilities. As of September 30, 2022 deferred inflows of resources from leases are valued at \$2,407,628. Aside from the Authority's lease related noncurrent liabilities, the Authority did not have long-term debt or other long-term liabilities as September 30, 2022.

The Management's Discussion and Analysis explains the major factors impacting the 2022 Financial statements.

**FY 2023 Economic Outlook**

The economic future for both the airport and the seaport depends heavily in the transportation and trade sectors. Airports and seaports are essential infrastructures that connect states and other countries while also facilitating the movement of commodities and people.

**POHNPEI PORT AUTHORITY**  
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Management's Discussion and Analysis  
Year Ended September 30, 2022

**FY 2023 Economic Outlook, continued**

Pohnpei State's borders were fully opened in August 2022, and the Authority currently anticipates numerous transactions from vessels and airplanes.

The seaport's various services, such as boat service, navigational aids, line handling, and others, will be significantly impacted as fishing vessels now consider transshipment, provisioning, bunkering, and other business in Pohnpei. Airport revenues will also be back to normal as United Airlines will increase their flights. Also, authority is looking into the possibility of decreasing the departure fee.

The Authority is optimistic about the potential of increased lease revenue in FY2023. We expect that previously vacant land and available space will be leased to new occupants as business partners from various sectors express interest in utilizing these areas. This renewed interest in leasing our properties indicates a positive trend in commercial demand, which is expected to contribute significantly to our revenue generation. We are actively working to attract new lessees to maximize the utilization of our properties, further boosting our financial outlook for the year 2023.

The Authority will be seeking financing opportunities with the Federal Aviation Administration, U.S. Department of the Interior's Office of Insular Affairs, and the FSM National Government. The funding will be used for safety enhancements, acquisition of equipment, and repairs and maintenance of the Authority's airport facilities and infrastructure.

The Authority anticipates an increase in expenses as we project an increase in the volume of transactions during FY 2023. Utilities, particularly power consumption, are significant contributors to our operational expenses at both the airport and seaport. As economic activities and operations expand, we expect power consumption to surge. This is primarily due to the increased demand for electricity required to operate various systems, lighting, and essential infrastructure.

Moreover, we also expect an increase of fuel consumption during the upcoming fiscal year. This increase in fuel usage is directly related to the increase of our operations, which will involve the use of more vehicles and boats. These additional usages of vehicles and boats are necessary to support the increased volume of airport and seaport operations.

It's important to recognize that while these rising expenses are expected, we are committed to managing them efficiently. We will explore energy-saving initiatives and implement sustainable practices where possible to mitigate the overall impact on our operational budget. As part of our ongoing strategy, we will monitor these cost increases closely to ensure they align with the growth in transactions and remain sustainable within our financial framework.

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Management's Discussion and Analysis  
Year Ended September 30, 2022

**FY 2023 Economic Outlook, continued**

The Authority holds a positive outlook for FY 2023, aiming to not only recover from the financial losses incurred during the pandemic but to also surpass the financial performance achieved in FY 2022. We anticipate an increase in revenue; however, it's important to acknowledge that this upward trend in income will correspond with higher expenses.

To address this financial landscape, the Authority is resolute in its commitment to optimizing resources. We will proactively seek financial assistance from important stakeholders, including the FSM government, OIA, and other relevant institutions. By exploring these avenues, we aim to secure the necessary funding and support to sustain our operations and meet our goals.

In light of these initiatives, we will maintain a cautious approach to financial management. This approach is vital to ensure the sustainability of the positive operational trends we aim to foster. By exercising prudence and diligence in our financial planning and decision-making, we will be better positioned to navigate the challenges and opportunities that lie ahead in FY 2023.

**Contacting the Authority's Financial Management**

The financial report is designed to provide our customers, creditors, Board of Directors and other interested parties with the general overview of the Authority's financial activities. Questions or additional financial information can be asked or obtained from Finance Division with the permission of the General Manger at P.O. Box 1150, Pohnpei, FM 96941.

**POHNPEI PORT AUTHORITY**  
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Statement of Net Position  
September 30, 2022

ASSETS

Current assets:

Cash and cash equivalents	\$ 5,679,720
Accounts receivable, net	584,504
Lease receivable, net	332,482
Advances	28,112
Prepaid expenses	<u>41,873</u>
Total current assets	<u>6,666,691</u>

Noncurrent assets:

Investments	238,500
Lease receivables, net of current portion	2,363,281
Depreciable property and equipment, net	3,410,253
Non-depreciable property and equipment	<u>2,776,034</u>
Total noncurrent assets	<u>8,788,068</u>
Total assets	<u>\$ 15,454,759</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current liabilities:

Accounts payable	\$ 80,445
Accrued liabilities and others	104,330
Accrued annual leave	<u>95,309</u>
Total current liabilities	<u>280,084</u>

Deferred inflows of resources from leases	<u>2,407,628</u>
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Commitments and contingency

Net position:

Net investment in capital assets	6,186,287
Unrestricted	<u>6,580,760</u>
Total net position	<u>12,767,047</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,454,759</u>

The accompanying notes are an integral part of these financial statements.

**POHNPEI PORT AUTHORITY**  
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Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended September 30, 2022

Operating revenues:	
Seaport charges	\$ 1,510,968
Land leases and space rentals	424,201
Lease interest revenue	278,292
Departure fees	199,250
Landing fees	68,327
Other	<u>113,727</u>
Total operating revenues	2,594,765
Bad debt expense	<u>6,685</u>
Net operating revenues	<u>2,588,080</u>
Operating expenses:	
Salaries and benefits	1,496,724
Depreciation	425,043
Utilities	198,922
Contractual services	105,270
Repairs	98,233
Fuel	82,311
Supplies and materials	78,318
Communications	30,672
Training	7,601
Equipment rental	3,790
Travel	1,600
Miscellaneous	<u>81,756</u>
Total operating expenses	<u>2,610,240</u>
Loss from operations	<u>(22,160)</u>
Nonoperating (expense) revenues, net:	
Grants	213,842
Interest and investment income	7,072
Gain on sale of fixed asset	3,501
Unrealized loss on investment	<u>(52,722)</u>
Total nonoperating revenues (expense), net	<u>171,693</u>
Change in net position	<u>149,533</u>
Net position at beginning of year	12,394,860
Prior period adjustment	<u>222,654</u>
Total net position - beginning of year, restated	<u>12,617,514</u>
Net position at end of year	<u><u>\$ 12,767,047</u></u>

The accompanying notes are an integral part of these financial statements.

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

Statement of Cash Flows  
Year Ended Septemeber 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 2,365,588
Cash paid to suppliers for goods and services	(695,111)
Cash paid to employees for services and benefits	<u>(1,510,147)</u>
Net cash provided by operating activities	<u>160,330</u>
Cash flows from noncapital financing activities	
Proceeds from grants	<u>213,842</u>
Cash flows from capital and related financing activities	
Acquisition of property and equipment	<u>(350,908)</u>
Net cash used in capital and related financing activities	<u>(350,908)</u>
Cash flows from investing activities:	
Proceeds from sale of property and equipment	3,501
Net change in investments	<u>(45,860)</u>
	<u>(42,359)</u>
Net change in cash and cash equivalents	(19,095)
Cash and cash equivalents at beginning of year	<u>5,698,815</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,679,720</u></u>
Reconciliation of loss from operations to net cash provided by operating activities:	
Loss from operations	\$ (22,160)
Adjustments to reconcile loss from operations to net cash (used in) provided by operating activities:	
Depreciation	425,043
Bad debt expense	6,685
Lease amortization	286,206
(Increase) decrease in assets:	
Accounts receivable	(275,473)
Lease receivable	(2,695,763)
Advances	2,566
Prepaid expenses	45,659
Increase (decrease) in liabilities:	
Accounts payable	58,106
Accrued liabilities and others	(64,744)
Accrued annual leave	(13,423)
Deferred inflows of resources - lease revenue	<u>2,407,628</u>
Net cash provided by operating activities	<u><u>\$ 160,330</u></u>

The accompanying notes are an integral part of these financial statements.

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

Notes to Financial Statements  
September 30, 2022

**(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 airports. 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 statement of net position. The Proprietary fund operating statement presents 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 nonoperating 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.



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

Notes to Financial Statements  
September 30, 2022

**(2) Summary of Significant Accounting Policies, Continued**

Net Position

Net position represents 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 three categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets. Deferred outflows of resources that are attributable to related debt are also included in this component.
- Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Net position that is not subject to externally imposed stipulations is considered unrestricted. Unrestricted net position may be designated for specific purposes by action by 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 statement of net position and of cash flows, cash and cash equivalents are 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, 2022, the carrying amount of the Authority's total cash and cash equivalents was \$5,679,720 with a corresponding bank balance of \$5,723,153, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, bank deposits in the amount of \$500,000 was 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.

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

Notes to Financial Statements  
September 30, 2022

**(2) Summary of Significant Accounting Policies, Continued**

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 collectability 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. At September 30, 2022, receivables are net of an allowance for doubtful accounts totaling \$107,761.

Lease receivable

Lease receivable represents the present value of lease payments expected to be received during the lease term. The Authority has adopted policies to assist in determining lease treatment in accordance with the requirements of GASB Statement No. 87, which include the following: (1) the maximum possible lease term is non-cancelable by both lessee and lessor and is more than 12 months and (2) the terms of the lease will include possible extension periods that are deemed to be reasonably certain given all available information, regarding the likelihood of renewal.

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 equity 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 \$1,000. Land is recorded based on an appraisal of the Authority facilities performed during the year ended September 30, 1996.

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

Notes to Financial Statements  
September 30, 2022

**(2) Summary of Significant Accounting Policies, Continued**

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/from 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

In 2020, GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

During the year ended September 30, 2022, the Authority implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Limited exceptions to the single approach guidance are provided for short-term leases, financed purchases, leases of assets that are classified as investments, and certain regulated leases.

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

Notes to Financial Statements  
September 30, 2022

**(2) Summary of Significant Accounting Policies, Continued**

New Accounting Standards, continued

At October 1, 2021, the Authority recorded lease receivable and related deferred inflows of resources of \$2,407,628 for its lease agreements as a lessor. The adoption of GASB Statement No. 87 had an effect of \$297,525 on beginning net position.

- GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The primary objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.
- GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.
- GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans- an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with

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

Notes to Financial Statements  
September 30, 2022

**(2) Summary of Significant Accounting Policies, Continued**

New Accounting Standards, continued

the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

- GASB Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. The new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

Apart from GASB Statement No. 87, the implementation of these statements did not have a material effect on the accompanying financial statements.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, the GASB issued Statement No. 96, *Subscription – Based Information Technology Arrangements*. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription- based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The primary objective of this Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Requirements in the statement relating to the extension of the use of London Interbank Offered Rate (LIBOR),

**POHNPEI PORT AUTHORITY**  
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Notes to Financial Statements  
September 30, 2022

**(2) Summary of Significant Accounting Policies, Continued**

New Accounting Standards, continued

accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenue by pledging governments, clarification of certain provisions of GASB Statement 34, as amended, and terminology updates related to GASB Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, public-private partnerships (PPP)s, and subscription-based information technology arrangements (SBITAs) are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB statement 53 are effective for fiscal years beginning after June 15, 2023.

In April 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*, the primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change).

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

Notes to Financial Statements  
September 30, 2022

**(2) Summary of Significant Accounting Policies, Continued**

New Accounting Standards, continued

In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal years ending September 30, 2025.

The Authority is evaluating the effects that the above upcoming pronouncements may have on the financial statements.

**(3) Investments**

At September 30, 2022, investments represent 10,000 common shares in Bank of the FSM (BFSM), which approximated 1% ownership interest. The total shareholders' equity reported by BFSM approximated \$ 22,286,000.

**(4) Property and Equipment**

Capital asset activities for the year ended September 30, 2022 is follows:

	Estimated Useful Lives	Balance at October 1, 2021	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2022
Non-depreciable:					
Land		\$ 2,776,034	\$ -	\$ -	\$ 2,776,034
Construction in progress		-	-	-	-
		<u>2,776,034</u>	<u>-</u>	<u>-</u>	<u>2,776,034</u>
Depreciable:					
Buildings and improvements	7 - 70 years	18,119,432	92,107	-	18,211,539
Machinery and equipment	3 - 5 years	4,097,617	326,218	(20,784)	4,403,051
		22,217,049	418,325	(20,784)	22,614,590
Less accumulated depreciation		<u>(18,722,042)</u>	<u>(503,079)</u>	<u>20,784</u>	<u>(19,204,337)</u>
		<u>3,495,007</u>	<u>(84,754)</u>	<u>-</u>	<u>3,410,253</u>
Property and equipment, net		<u>\$ 6,271,041</u>	<u>\$ (84,754)</u>	<u>\$ -</u>	<u>\$ 6,186,287</u>

**(5) Related Party Transactions**

During the year ended September 30, 2022, the Authority recorded \$66,940 as net of seaport charges due to the Pohnpei State Government. 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, 2022 the unremitted balance of \$33,588 is presented in the accompanying financial statements as a component of accrued liabilities.

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

Notes to Financial Statements  
September 30, 2022

**(6) Leases**

Lease-related amounts, with the exception of short-term leases, are recognized at the inception of leases in which the Authority is the lessor. The deferred inflow of resources is recorded in the amount equal to the corresponding lease receivable plus certain additional amounts received from the lessee at or before the commencement of the lease term that relate to future periods, less any incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The inflow of resources is recognized in a systematic and rational manner over the term of the lease.

The Authority, as a lessor, entered into lease agreements involving land and concession stands that expire on various dates through 2047 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.

Total land and space rental revenues from tenants for all rental totaled \$702,493 for the year ended September 30, 2022.

A summary of changes in lease receivable for the year ended September 30, 2022 is as follows:

<u>Beginning</u>				<u>Ending</u>		
<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Current</u>	<u>Noncurrent</u>	
\$ -	\$3,280,937	\$ 585,175	\$2,695,762	\$332,482	\$2,363,280	

Lease receivables are due in the upcoming years as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 332,482	\$ 215,670	\$ 548,152
2024	183,035	202,629	385,664
2025	103,443	196,959	300,402
2026	52,293	192,863	245,156
2027	24,248	188,757	213,005
2028 - 2032	208,056	895,816	1,103,872
2033 - 2037	441,247	745,286	1,186,533
2038 - 2042	821,387	456,751	1,278,138
2043 - 2047	<u>529,571</u>	<u>75,489</u>	<u>605,060</u>
	<u>\$ 2,695,762</u>	<u>\$ 3,170,220</u>	<u>\$ 5,865,982</u>



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

Notes to Financial Statements  
September 30, 2022

**(7) 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 year ended September 30, 2022 totaled \$46,059. Management is of the opinion that the Plan does not represent an asset or a liability of the Authority. As of September 30, 2022, plan assets totaled \$804,279.

**(8) 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.

**(9) Restatement**

The Authority implemented GASB 87 Leases effective October 1, 2021 which impacted the opening balance of its net position for land lease and space rental revenues in the amount of \$ 297,526. As a result, the opening balance of net position was restated to reflect the effects of the implementation of GASB 87. In addition, the Authority's depreciation expense was understated as of September 30, 2021 and was restated to correct the understatements. Furthermore, capital project improvements expenses and accordingly building improvements were understated due to non-recognition in periods prior to September 30, 2021 and was restated to correct the understatement. As a result of these determinations, the 2021 financial statements have been restated from the amounts previously reported as follows:

	As Previously Reported	Adjustments	As Restated
For the year ended September 30, 2021:			
Land leases and space rentals	\$ 640,293	\$ 297,526	\$ 937,819
Change in operating revenues	\$ 2,377,178	\$ 297,526	\$ 2,674,704
Depreciation expense	\$ 378,257	\$ 75,079	\$ 453,336
Capital improvement project expense	\$ -	\$ (207)	\$ (207)
Change in operating expenses	\$ 2,664,111	\$ 74,872	\$ 2,738,983
Change in operating income (loss)	\$ (286,933)	\$ 222,654	\$ (64,279)
Change in net position	\$ (208,134)	\$ 222,654	\$ 14,520
 Net position, end of the year	 \$ 12,394,860	 \$ 222,654	 \$ 12,617,514

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

Notes to Financial Statements  
September 30, 2022

**(9) Restatement, Continued**

For the year ended September 30, 2021:

Accumulated depreciation	\$ (18,722,042)	\$ (75,079)	\$ (18,797,121)
Change in depreciable property and equipment, net	\$ 3,471,777	\$ (74,872)	\$ 3,396,905
Change in total assets	\$ 12,695,005	\$ (74,872)	\$ 12,620,133

**(10) Risks and Uncertainties**

The Authority is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. 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 four years.

**(11) Coronavirus Pandemic**

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. and throughout Micronesia. On March 11, 2020, the World Health Organization (WHO) characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. On May 5, 2023, the WHO declared that the public health emergency ended. It is anticipated that these impacts will continue for some time. As a result of the spread of the coronavirus pandemic, economic uncertainties have arisen which are likely to impact the day-to-day administration of the Authority. While this matter is expected to negatively impact the Authority's results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

**(12) Date of Management's Review**

Management has considered subsequent events through February 16, 2024, the date upon which the financial statements were available to be issued. There were no other material subsequent events that would require recognition or disclosure in the financial statements for the year-ended September 30, 2022.

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

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

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**Year Ended September 30, 2022**



**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**

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 the Pohnpei Port Authority (the "Authority"), which comprise the statement of net position as of September 30, 2022, 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 February 16, 2024.

***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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001 that we consider to be a significant deficiency.

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PO Box 1266 Koror, PW 96940  
Tel Nos. (680) 488-8615  
Fax Nos. (680) 488-8616

### ***Compliance and Other Matters***

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

### ***The Authority's Response to Findings***

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

### ***Purpose of this Report***

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

*Bryce Conner & Associates*

February 16, 2024  
Tamuning, Guam

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

Schedule of Findings and Responses  
Year Ended September 30, 2022

**Finding No.: 2022-001**

Area: Implementation of Governmental Standards Board (GASB) Codification (COL.) - *Leases*

Criteria: GASB 87 requires lessors to classify leases as either operating leases or finance leases. The classification depends on the nature of the lease agreement and the extent to which the lessor transfers control of the leased asset to the lessee. Lessors are required to recognize lease revenue over the lease term in a systematic and rational manner, unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property. Lessors are required to recognize a lease receivable, which represents the amount due from the lessee for the right to use the leased asset over the lease term. GASB Cod. L20.144 states that the lessor should measure the lease receivable at the present value of lease payments expected to be received during the lease term. Measurement of the lease receivable should include the following, if required by lease: (1) fixed payments and (2) variable payments that depend on index or rate (e.g. rate escalation). Additionally, L20.153 states that the deferred inflow of resources shall be measured based on the initial measurement of lease receivable.

Condition: Management did not initially implement GASB 87 as of September 30, 2022.

Cause: Management did not obtain adequate training on the provisions of GASB L20, *Leases* prior to the year ending September 30, 2022.

Effect: Lease receivables and deferred inflow of resources were not initially computed and recognized in the financial statements which required adjustments to the financial statements.

Recommendation: Management should provide personnel with timely training to ensure compliance with new and upcoming GASB Statements.

View of Responsible Officials: The Authority describes its response to the finding and related corrective action in its corrective action plan.

Views of Auditee and Corrective Action Plan: The Authority effectively adopted GASB 87 under the auditor's advice. The Authority assures that it will remain in compliance by using the auditor-endorsed spreadsheet, and is also seeking for software to help with lease computation and monitoring. The Authority is to provide personnel with timely training to guarantee compliance with new and upcoming GASB statements.

Name of Contact Person:

Ritchie Joy Valencia, Comptroller.  
Twyla Poll, Finance Manager.

Proposed Completion Date: Ongoing.

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

Schedule of Unresolved Prior Year Findings  
September 30, 2022

There are no unresolved questioned costs or prior year findings of the Authority as of September 30, 2022.